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A heart-rending but necessary war
Slow progress? Yes, but it's only been four weeks ... More on this week's lead article

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Politics this week

Nov 1st 2001
From The Economist print edition

Air raid

America continued its attacks on **Afghanistan** from the air, launching some of the heaviest raids yet. America's air force also began a concerted effort to help the Northern Alliance capture strategic northern cities by intensifying strikes on the Taliban front line, and supplying weapons and advisers.

See article: The war this week

Britain's prime minister, **Tony Blair**, fought the war on the diplomatic front. After a speech urging a wavering British public not to “flinch” or “falter”, he embarked on a mission to keep the support of waverers in the Middle East. Mr Blair's first stop in **Syria** boomeranged. President Bashar Assad condemned the attacks on Afghanistan, and spoke of Israeli “terrorism” and Arab resistance. Mr Blair's other stops were Saudi Arabia, Jordan, Israel and the occupied territories.

EPA

See article: Bagehot: Spinning the war

Alien threat

George Bush said he would tighten **immigration** rules so that “aliens who commit or support terror” would be barred from entering the United States. A “foreign-terrorist tracking task force” will police borders for incoming suspects and “locate, detain, prosecute or deport” those already in the country.

America's attorney-general, John Ashcroft, gave warning of another **imminent terrorist attack** after “credible” intelligence reports, although he said he did not know the nature of the threat. The Federal Aviation Administration restricted flights near the World Series baseball games in New York city and around nuclear sites.

See article: The home front, going badly

A hospital worker in New York city became the fourth person to die of inhalation **anthrax** as the bacteria were found at four more government buildings and the Supreme Court in Washington. Contamination has now been found at ten locations in the capital.

America and Russia seemed to be close to a deal that would allow America to continue testing **missile-defence** technology and would make deep cuts in both sides' nuclear arsenals.

Christians under fire

Gunmen burst into a church in Bahawalpur, in eastern Pakistan, and **killed 16 Christians**. The attack was assumed to be linked with protests against the American bombing of Afghanistan.

See article: Christians in the Middle East

Japan's parliament amended its **pacifist policy** to allow its armed forces to support the American-led war on terror.

In the latest of a number of accidents at Japan's **nuclear plants**, fire broke out on the site of a fast-breeder reactor at Oarai, north-east of Tokyo. Police said that there was no radiation leak. Japan has 51 reactors supplying a third of the country's electricity.

Withdrawing, in part

EPA

Under American pressure, **Israel** withdrew its troops from Bethlehem and Beit Jala. But it is still occupying parts of five other Palestinian towns in the West Bank and raiding neighbouring villages. Shimon Peres, the foreign minister, said he was presenting a new peace plan to the prime minister, Ariel Sharon.

An interim power-sharing government was launched in **Burundi**. A Tutsi president will rule for 18 months and then hand over to a Hutu; rebel leaders say they do not feel bound by the deal. Several hundred South African soldiers arrived in the capital, the first of a 1,400-strong “protection force”.

See article: South African foreign policy

South Africa's opposition alliance collapsed after weeks of squabbling. The New National Party, which had split from the Democratic Party, began discussions with the ruling African National Congress about joint rule in the Western Cape and a possible role in central government.

Zimbabwe reiterated its refusal to accept European observers to monitor its election process but agreed to talk about human rights. European ministers said Zimbabwe had not honoured its promise to restore the rule of law and could face sanctions or the withdrawal of EU aid within two months.

See article: Curbing Mr Mugabe

Poles together

Poland's new coalition government, made up of the ex-communist Democratic Left Alliance and the smaller Peasants' Party, formally took office after winning a vote of confidence in parliament.

See article: Wlodzimierz Cimoszewicz, Poland's foreign minister

Georgia was in a state of confusion after President Edward Shevardnadze's decision to sack his entire government amid rows over corruption and incompetence.

Fireworks in **Italy** as its anti-rackets commissioner, Tano Grasso, resigned after a special commissioner was appointed to do the same work. A victory for the mob, said anti-Mafia groups. A political fix, said opposition parties.

Britain's government announced yet another supposedly major reform of its shambolic rules on asylum-seekers, the fourth such change in a decade.

See article: A little less lunacy on asylum

EPA

France's Communist Party chose Marie-George Buffet to lead it as national secretary, alongside Robert Hue, who had previously held the post and will run in next year's presidential election. Both are ministers in France's Socialist-led coalition government.

See article: France's Communists

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Business this week

Nov 1st 2001
From The Economist print edition

New driver

Jacques Nasser, chief executive of **Ford**, was driven out. A worsening economy, on top of the recall of vehicles fitted with Firestone tyres, had led to a second consecutive quarterly loss. The Ford family, still owners of 40% of the company, decided to put one of their own back behind the wheel. William Clay Ford, Ford's chairman, will take over as chief executive as well.

See article: The crisis at Ford as Jacques Nasser is ousted

A day later Jonathan Browning quit as managing director of **Jaguar**, a Ford subsidiary. The firm said his departure was unconnected with Mr Nasser's. Mr Browning was apparently unhappy about Ford's decision to create a joint committee of Jaguar, Land Rover and Aston Martin, introducing a layer of management over his head.

James Goodwin, chief executive of **United Airlines**, was ousted. He had added to the problems facing the airline in the aftermath of the terrorist attacks of September 11th with a letter to employees suggesting that United could “perish” unless matters improved. United's shares plunged and unions representing employees, who own 55% of the airline, demanded Mr Goodwin's head.

Software settings

There were reports of a tentative settlement in the government's long-running antitrust case against **Microsoft**. Lawyers close to the talks suggested that the settlement might leave the software giant's market largely undiminished. But final details remained unclear, and it was also uncertain whether state attorneys-general would be willing to sign up.

General Motors sold Hughes Electronics, owner of **DirecTV**, to **EchoStar** for $25.8 billion. EchoStar's acquisition of DirecTV, its only serious rival as a satellite-TV broadcaster in America, dashes Rupert Murdoch's ambition to buy the company and create a worldwide satellite network through Sky Global. But American antitrust authorities may yet block the deal.

See article: The battle for DirecTV

Ericsson installed Michael Treschow as its new chairman. The former boss of Electrolux will see the mobile-phone company through a restructuring necessitated by slowing world demand for mobile phones and dwindling market share. Ericsson's workers noted gloomily that his enthusiasm for job cuts earned him the nickname “Mike the Knife” at Electrolux.

As widely expected, Sir Peter Bonfield agreed to quit as chief executive of **British Telecom** in January 2002, a year ahead of schedule, after six years at the company. BT said he had completed a restructuring ahead of time: a measure required because Sir Peter had helped to run up debts of close to £30 billion ($44 billion) through a series of ill-fated acquisitions and joint ventures. He will receive a pay-off worth some £1.5m.

Fair exchange

Euronext, formed through a merger of the stock exchanges of Paris, Brussels and Amsterdam, succeeded with its £555m ($806m) bid in an auction for the London International Financial Futures and

Options Exchange (Liffe). The pan-European outfit beat off the London Stock Exchange and Deutsche Börse. The troubled LSE may now become a takeover target itself.

See article: After Liffe

Running out of energy

Enron, the world's biggest energy-trading company, faced mounting financial problems. Doubts increased about the company's unorthodox financial dealings and the potential liabilities they might carry. Enron's shares continued on a downward path to their lowest since 1992.

See article: A financial black hole

Lockheed Martin swooped to capture the biggest defence contract ever handed out by the Pentagon. Building America's next-generation Joint Strike Fighter could be worth some $200 billion to Lockheed's consortium, which includes BAE Systems and Northrop Grumman. The deal is bad news for Lockheed's main competitor, Boeing.

See article: California's passionate Republicans

Renault and **Nissan** took steps to deepen their partnership. Nissan will take a (non-voting) 15% stake in the French car maker for some *euro*1.4 billion ($1.3 billion). Renault will raise its stake in the Japanese concern from 37% to 44%, at a cost of ¥216 billion ($1.76 billion). The French government will reduce its 44% stake in Renault first to 38% and eventually to 25%.

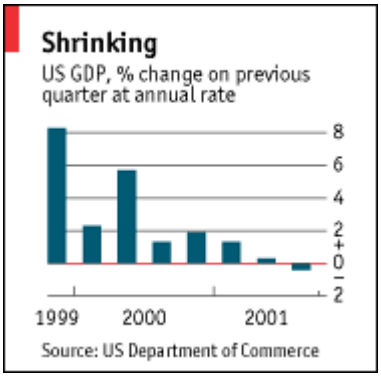
A consortium led by **ExxonMobil** announced the biggest-ever foreign investment in a Russian oil project. Some $4 billion could be spent to develop offshore oilfields at Sakhalin island in the far east of the country.

McDonald's announced its latest special offer: a $5 billion share buyback over the next four years. The hamburger giant also gave warning that profits next year would grow by only 5-10%.

See article: Face value: Jack Greenberg of McDonald's

America founders

News about **America's economy** continues to be dismal. GDP contracted in the third quarter by 0.4% at an annual rate, the worst fall since 1991. Consumer confidence also tumbled to a seven-year low, according to figures from the Conference Board.



See article: Real and nominal growth

Prices of **Argentina**'s bonds sank to their lowest since 1995, amid fears that the country is on the brink of default. The government delayed promised economic measures while it sought to press reluctant provincial governors to accept further spending cuts.

See article: South America's troubled economies

A World Bank report estimated that **growth in developing countries** could be as low as 2.9% this year (down from 5.5% in 2000) after the events of September 11th combined with the slowdown of the world's big economies. Ahead of next week's Doha trade meeting, the report also said that abolishing all trade barriers would boost global income by $2.8 trillion over a ten-year period.

See article: A deal at Doha

Germany launched a cinema advertisement intended to convince the public of the **benefits of the euro**. The commercial stars Götz Georg and Ingolf Lück, two well-known actors, as well as Hans Eichel,

Germany's less-famous finance minister.

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Fighting terrorism

A heart-rending but necessary war

Nov 1st 2001
From The Economist print edition

Slow progress? Yes, but it's only been four weeks

Get article background

IT HAS been a wobbly few days for the West's warriors. Television news bulletins and newspapers, when pausing between anthrax scares, became dominated by pictures of injured, dead or just fearful Afghans, young and old, and by reports of civilian casualties and other evidence of mis-targeting by American bombers. There was nothing new or dramatically different about what was happening to civilians, but reporters and cameramen were closer than before to the bombing, and they did not have much else to send back to their editors. Which also reflected a second cause for concern: that little progress was apparently being made in the effort either to topple the Taliban or to find Osama bin Laden and his al-Qaeda terrorists. On some interpretations, it was even worse than that: when, on October 26th, the Taliban captured and executed Abdul Haq, a would-be rebel leader, despite efforts by American forces to protect him, the campaign seemed to have suffered a setback.

All these worries were exaggerated. But they nevertheless managed to create an awkward alignment of view between two sorts of people who are otherwise at odds: those who oppose the war altogether on the ground that it is wrong to kill more, innocent people; and those who favour military action but believe that American generals and their political masters are being far too cautious and are getting bogged down as a result. And looking nervously on was yet another group, partly in the West but most critically in the front-line Muslim states, who support action against al-Qaeda and the Taliban but who are anxious that it should succeed quickly and with a minimum of civilian casualties.

We all want peace

The divide endures. The pacifist argues that peace is better than war; the realist replies that he agrees, but that the only way to achieve it when war has been declared against you is to fight for it, since Mr bin Laden is evidently not a pacifist himself. Even so, in this televisual age, wars come into your living-room, bringing with them uncomfortable images. The drama and tragedy of military conflict make it appear a rapid affair, yet most wars are actually fairly slow to reach a conclusion. It is only four weeks since the American bombing began on October 7th. President George Bush, when he announced that the military campaign had commenced, gave ample warning that it would be a difficult process, promising not a quick victory but “the patient accumulation of successes”.

Patience is certainly required. The Taliban may not be heavily armed or sophisticated, but it has been known all along that they would be hard to find, let alone defeat, in Afghanistan's difficult terrain. That is especially true when you are trying hard to avoid killing civilians with your attacks and when as a consequence those of your enemies who are not hiding in caves seek to mingle with those civilians. Given such difficulties, the Americans have done pretty well in limiting the casualties. Where they do not seem to have done well, on the basis of the limited information available, is in bringing the Taliban themselves close to collapse or surrender.

On one view, that too should be no cause for criticism. The task is hard, but the determination to complete it is intact. The ultimate source of that determination, the opinion of the American public, remains resolute. The memory of September 11th is naturally strong, but is also kept fresh by the deaths

at home from anthrax and by the fear of other attacks. There is no cause there for impatience. And yet the case for urgency needs also to be taken seriously, for two related reasons.

The main one is the need for support from Pakistan and the other countries that have borders with Afghanistan. America needs no direct military assistance, but it does need supply lines and local bases, whether for rescue missions or for attacks. The larger the total of Muslim civilian casualties and the slower the process of accumulating successes, the more domestic pressure will mount on those neighbouring governments (especially Pakistan's) and the less they will be convinced that they are gaining by supporting America. On current evidence, their patience is not near breaking-point. But it will not be unlimited.

The second reason is that the tougher the task appears of beating the Taliban, and thus the stronger the Taliban themselves look, the more other Muslims, from near or afar, may be tempted to join them. Already, thousands of Pakistanis have been trying to cross the border to offer their help. The nightmare would be if other governments, or even wealthy organisations, became tempted to send help to what now seemed, to much surprise, to be a viable opponent of the superpower. Then America really would find itself at risk of the Soviet Union's fate in Afghanistan in the 1980s: fighting a guerrilla war against opponents armed and partly manned by outsiders (in that case, Arabs and America itself).

Step up the ground war, and threaten even more

But what would urgency look like? No one could plausibly argue that the generals in charge are being deliberately slow. The bombing raids are relentless (see article). But what has not occurred as quickly as even some military experts expected has been the switch to the use of fast, hit-and-run raids by special ground forces. If successes are to be accumulated, such commandos are the likeliest way to achieve them.

They are also a risky way. The American public is surely willing to accept the risk of casualties in a war to prevent further terrorist atrocities. Military commanders may be another matter, however. Their fear will be of another Somalia, when in 1993 captured American soldiers were paraded on camera and bodies dragged through the streets. That is a genuine risk, and if it were to occur it would be a greater setback than the execution of Haq, a figure of no formal status among the anti-Taliban opposition. But this risk is going to have to be taken.

Military experts are unanimous in arguing that a conventional ground war, of the sort used in Kuwait in 1991, would be a bad idea in Afghanistan because of the terrain and the nature of the enemy. They are probably right in warning against that option. Even so, there are gradations of ground operations; it is not a matter of all or nothing. America needs to establish bases inside Afghanistan from which to supply food and arms both to its own forces and to its anti-Taliban allies. It also needs to create more fear on the Taliban side by planting the thought that American attacks could come from any direction, by any means, at any time. The way to plant that thought is by using hit-and-run raids, not just by talking about them.

Nevertheless, talking can still play a useful role. President Bush, his British ally Tony Blair, and all their main political and military officials have done a good job of emphasising, time after time, that this will be a long campaign. They have also stated their willingness to use ground troops. But they need to go further, stressing their willingness to use more than small units of commandos. Bad option though it may be, America and Britain need also to be willing, in the end, to send in a massive ground force, if all else has failed, and they should start saying so now, to display their resolution to the Taliban. For if all else really had failed, what would be the alternative? In this war, there will be no going back.

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Weapons of mass destruction

Dealing with the unthinkable

Nov 1st 2001
From The Economist print edition

Keeping nuclear, chemical and biological weapons out of terrorists' hands

IF YOU had asked before September 11th what was the greatest threat to peace in the 21st century, the answer would have been the same as it is today: the spread of weapons of mass destruction. But now there seems a world of difference. Proliferation-trackers have long fretted about such weapons falling into the hands of hostile, even if hopefully deterrable, governments. Now they are weapons of choice for suicidal terrorists with no calculation of restraint. Whether the anthrax-laced letters in America are al-Qaeda's follow-up to September's attacks on New York and Washington or the work of some other group, there could be worse to come (see article). Is the decades-long battle to control the spread of nuclear, chemical and biological weapons now lost?

There is no doubt that if al-Qaeda's boss, Osama bin Laden, has such weapons he will try to use them; supporters have in the past threatened a “Hiroshima” against America. The world is not helpless against such threats. But an effective response to prevent future threats, by al-Qaeda or anyone else, requires that, alongside the current military, diplomatic and financial campaign against al-Qaeda, a lot more effort, money and political will be put into the anti-proliferation cause.

Between them the nuclear Non-Proliferation Treaty (NPT), the Chemical Weapons Convention (CWC) and the Biological Weapons Convention (BWC) already outlaw the spread of such weapons. More pressure needs to be applied to those who have not signed up: India, Pakistan, Israel and Cuba are outside the NPT, and North Korea refuses proper inspections; Egypt, Libya and Syria are among the hold-outs from the CWC. A harsher diplomatic spotlight needs to be turned on cheats: Russia, a repository power for the BWC, admits it had (some think still has) a biological-weapons programme; Iran barely disguises its nuclear ambitions.

But aren't treaties aimed at states anyway useless against groups like al-Qaeda? On the contrary, they establish the norms that make its threatened actions a crime. And Mr bin Laden is no Dr No, with lavish weapons laboratories of his own; whatever he does have has been filched, one way or another, from government-run programmes.

Some of the proliferation gaps to be plugged are glaringly obvious. Before the 1995 sarin attack on the Tokyo underground, which killed 12 people and injured more, Japan had no laws making dabbling in chemical or biological weapons a crime. Governments that have signed the CWC are now obliged to adopt national laws to implement its rules, though many drag their feet. Few have taken measures to implement the biological ban. Similarly, when it was discovered after the Gulf war how easily Iraq had run rings round safeguards on its nuclear materials, verification rules were tightened, giving the International Atomic Energy Agency (IAEA) tough new powers. But these apply only in countries that sign up to them, and few have done so. Until more western governments do, it will be hard to lean on potential rule-breakers elsewhere.

When it comes to proliferation, prevention is a lot less costly than cure, and small amounts of money can buy a lot more security. As a UN organisation, the IAEA has long been denied a budget increase for its safeguards work, despite a proliferating workload. More now needs to be done to help governments protect other less potent nuclear materials, in hospitals or industry, but the agency has to hand the cap round.

Short of a government deliberately helping the terrorists, the likeliest source of the smuggled materials

and expertise al-Qaeda has been after is the sprawling weapons complex in what was once the Soviet Union. Earlier this year, the Bush administration tried to cut the money America spends helping to protect and dismantle Russia's surplus nuclear weapons, to reduce its stocks of weapons-usable material, and to find employment for its scientists. Even before September 11th that looked like a false saving. Better for Mr Bush to use the opportunity of his upcoming summit with a more co-operative Vladimir Putin to find creative ways to speed up the work.

The risks to come

Much can be done, but is there the will? After its Iraqi shock, the UN Security Council decreed that the spread of weapons of mass destruction—like terrorism today—constituted a threat to international peace and security. Soon afterwards it fell out over whether to uphold its own resolutions on frisking Iraq. In 1998, when India and Pakistan tested nuclear weapons, few governments applied sanctions. America is now lifting them. But if these two win any benefits open to NPT members, having flouted the rules, the treaty will be weakened.

The risk from ghastly weapons in the wrong hands can never be eliminated; it can be reduced. But defences against it will be only as good as governments make them.

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European securities exchanges

Liffe story

Nov 1st 2001
From The Economist print edition

Euronext's takeover of Liffe is bad for Clara Furse, but may be good for London and Europe

NewsCast

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AT FIRST blush, it is one more blow to the London Stock Exchange—and to the City. After a series of calamitous mis-steps by the LSE in recent years, its newish chief executive, Clara Furse, had decided that her first big move to strengthen the exchange's position in Europe should be to merge with Liffe, London's derivatives exchange. But this week the prize was snatched from under her nose by Euronext, the Paris-based combination of the French, Dutch and Belgian exchanges.

Not for the first time, the LSE clearly mishandled its approach, giving Euronext's wily Jean-François Théodore his chance (see article). As it happens, Mr Théodore has probably paid too much. But he has clearly improved Euronext's chances of emerging as the leading European exchange. The LSE will now have to find an alternative strategy: perhaps a revival of its abortive merger plan with the third suitor for Liffe, Deutsche Börse, or a takeover of virt-X, a small electronic cross-border rival—or even a link-up with Euronext itself. After making so many mistakes, it is quite on the cards that the LSE will end up, deservedly, as a target rather than a predator.

Yet that need not be so bad, either for investors and companies that have long wanted consolidation among Europe's fragmented securities exchanges, or for London. One good thing about Euronext's purchase of Liffe is that it increases the pressure to slim the excessive number of European bourses. This is happening most immediately for derivatives exchanges, but it will do so for stockmarkets too. And it applies also to clearing and settlement, where the cost savings from rationalisation in Europe should be even greater than for trading platforms. This week's opening of the bidding for full ownership of Clearstream, one of the two big settlement agencies in Europe, in which Deutsche Börse has a half-stake, could with luck presage further consolidation—although it may still take regulatory intervention to prise away some clearing and settlement agencies from the ownership of stock exchanges.

As for London's position as Europe's leading financial centre, this week's takeover may, paradoxically, strengthen rather than weaken it. Euronext is, sensibly, moving all of its derivatives trading to Liffe. Its move has confirmed that the financial markets prefer London's regulatory structure under the Financial Services Authority. Most important of all, London's continued openness to foreign investment and takeover is one of its key advantages as an international financial centre. It remains hard to see the French or German authorities, say, being similarly accommodating; an archaic nationalism is one of the reasons why their financial centres have done less well over the years than London.

Most of the City's investment banks and securities houses are now in the hands of foreigners, often from the rest of Europe. Yet that has not strengthened the hand of London's rival European centres: instead, most German, French and Swiss banks have consolidated their capital-market and investment-banking operations in London, not in Frankfurt, Paris or Zurich. This “Wimbledon” effect of continuing to host the best tournament even when most of the players are neither British nor British-owned applies to stock and derivatives exchanges as much as to banks.

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Argentina's economy

Time to end the agony

Nov 1st 2001
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Default looks unavoidable, but outsiders should help pick up the pieces

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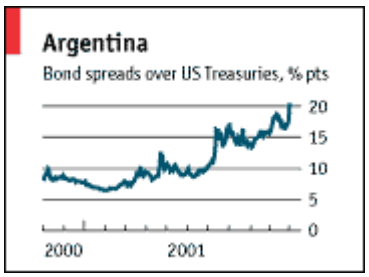
ARGENTINA was one of Latin America's fastest-growing economies in the 1990s—and one of its leading free-market reformers. Its growth was underpinned by a currency board, in which the peso is pegged by law at parity to the dollar. But since 1998, after capital began to flee from emerging economies, Argentina has been trapped in recession. To make matters worse, the currencies of its main trading partners have weakened sharply against the dollar. Without growth, Argentina's otherwise manageable public debt of $132 billion has become unpayable, and its modest fiscal deficit (mainly derived from the transitional cost of pension reform) unaffordable.



With its credit exhausted, in June President Fernando de la Rua and Domingo Cavallo, his economy minister, adopted a drastic austerity plan aimed at cutting spending to match (declining) tax revenues. But the policy has not worked (see article). Argentina's plight is drastic. Recession is turning to slump—the economy may have shrunk at an annualised rate of as much as 12% in the third quarter. In a mid-term election last month, most voters showed their disgust by staying away, spoiling their votes or backing the opposition Peronists. Mr Cavallo is trying to persuade creditors to accept a "voluntary" debt swap, the third such effort this year. But investors now distrust Mr Cavallo and his seemingly endless supply of clever fixes. The spreads on Argentine bonds (the premium they pay over American Treasury bonds) reached 20% this week.

That Argentina has staved off default and devaluation for so long is a tribute to the strength of the currency board and of the (largely foreign-owned) banking system. But the time gained has brought no prospect of relief. Soon, the government may face a choice between honouring debt payments or making politically suicidal further spending cuts.

So what should Argentina do? There are no good options. But the worst is to deny that current policies have failed. Better to own up, and seek a negotiated debt default, though default alone risks triggering further capital flight. One answer might be to bolster confidence by also dollarising the economy, a course hinted at by officials. But this offers no way out of recession, freezes an uncompetitive exchange rate, and would castrate Mercosur, since Brazil has a floating currency.

There are no good options, but the worst is to deny that current policies have failed

What about devaluation? Most Argentines reject this: many bank loans, mortgages and contracts are in dollars, so devaluation, it is argued, would wreck the balance sheets of banks, firms and households. A more plausible variant, proposed this week by Ricardo Hausmann, a Harvard economist, is to adopt a floating exchange rate, but also to decree the conversion of dollar deposits and debts (foreign as well as local, but not those to the IMF) into pesos indexed to inflation.

The risks are obvious: Argentines as well as foreigners may refuse to hold pesos of any kind, setting off an exaggerated devaluation and inflation. But no steps are risk-free. Given the slump, floating might not provoke chaos. Whether Mr Cavallo and Mr de la Rua have the strength to impose such radical measures is not clear. And, whatever course is adopted, Argentina will need to continue with a responsible fiscal stance.

Should outsiders do anything to help? In the past year, Argentina has already had loan packages totalling $28 billion from the IMF (including $3 billion to finance a debt swap). There is no reason for more aid to reward investors who have long been aware of a default risk. The lesson from the Latin American debt crisis of the 1980s is that recovery took place only once investors agreed to a substantial reduction in the value of their assets. This time the process involves thousands of bondholders, not hundreds of banks, and will be messier. But it still looks unavoidable.

Once Argentina has adopted a convincing new set of policies, outsiders should stand ready, with loans and guarantees, if that would ease a return to growth. Argentina may be a world away from Afghanistan, but it should not be overlooked. Its long economic agony has cast a heavy pall over South America. It is time for a resolution.

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World trade

High stakes at Doha

Nov 1st 2001
From The Economist print edition

Next week's WTO meeting must launch a new round of trade liberalisation

WELL before September 11th, a new round of multilateral trade talks was urgent. Now success at Doha, in Qatar, has become part of the anti-terrorist arsenal. Robert Zoellick, America's trade representative, calls new negotiations on trade a way to “counter the revulsive destructionism of terrorism”. With the world economy tipping into recession, the promise of freer trade should give a much-needed boost to confidence—even though the actual gains will be some years off. The meeting's very location sends helpful signals about the Muslim world's support for globalisation.

All this symbolism has its dangers. Besides the risk of meeting close to a war zone, there is the even bigger worry that negotiators will agree to launch a new round only by fudging the agenda. That would make it far harder to conclude it satisfactorily. So far, however, the mistakes made before the Seattle fiasco in 1999 have been avoided.

Thus, instead of bickering, the world's trading titans, America and the European Union, have been working closely together to minimise differences and bring others on board. Unlike Seattle's, the draft text now on the table is a serious basis for agreement (see article). It offers real liberalisation in goods, agriculture and services; it reaches out to poor countries, still smarting from the perceived inequity of the Uruguay round concluded in 1994; and it spreads the burden fairly by demanding compromises from all.

Yet there remain awkward sticking-points. The Europeans and Japanese are fighting freer trade in agriculture, particularly the end of export subsidies. Europeans regard the draft text as inadequate on the environment. The Americans rail against putting anti-dumping rules in play, and are also resisting pressure to free textile trade sooner. Poorer countries such as Brazil and India cannot agree with America on how to ensure that intellectual-property rules are flexible enough to cope with public-health problems, such as AIDS. To face down the special interests that make compromises on these things hard, both rich and poor countries must remember that they will be far better off with a new round than without one.

For richer, for poorer

The least enthusiastic for a new round have been the poor countries. Yet with higher trade barriers, on average, than rich countries, they have the most to gain from further liberalisation. They seem sure to be bigger winners this time than in the Uruguay round, since agriculture and textiles (which between them make up 70% of exports from the poorest countries) loom so large. A recent World Bank study suggests that further global trade liberalisation would lift an extra 300m people out of poverty by 2015.

The benefits for rich countries will also be large, for they are the biggest traders of all. And both rich and poor would suffer from a failure to launch a round. The momentum for trade talks would shift to regional and bilateral deals, in which poor countries have a weaker voice. Worse, a collection of simmering transatlantic trade disputes could start to undo the present regime. There is a bicycle effect in trade: failure to go forward creates a risk that the existing system topples to the ground.

On top of all this, a trade round launched at Doha offers not just a symbolic stand against terrorism, but a way to help many of the new allies in the war. Pakistan, for instance, will benefit hugely from freer trade in textiles. The recognition of these benefits, and of the price of failure, has brought the launch of a

new trade round, which a year ago seemed distant, within sight. Next week, the world's politicians must show the courage to make it a reality.

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Zimbabwe

Curbing Mr Mugabe

Nov 1st 2001
From The Economist print edition

What can outsiders do to help Zimbabwe?

Get article background

PA

ROBERT MUGABE may be a pair of concrete boots on a drowning country's feet, but he is also a skilled diplomat. His technique is simple but effective. Concerned foreign leaders ask him to obey his own laws, to stop his supporters from torturing dissidents, and so on. He promises to do all these things, thus forestalling the imposition of sanctions against his regime. He then carries on as before. The foreign leaders ask him once more to stop, he promises once more to do so, and he breaks his promise once more. This week, and not before time, some foreign leaders started to lose patience with Mr Mugabe. But, with so much attention focused on Afghanistan, it is not clear that they will devote the necessary energy to help solve Zimbabwe's crisis.

Two months ago, Britain tried the soft approach for what will, one hopes, be the last time. In return for a promise by Mr Mugabe's government to redistribute land in a legal and orderly manner, paying compensation to farmers whose land is expropriated, Britain offered to hand over £36m ($52m). Mr Mugabe broke the pact within hours. Since then, 680 commercial farms have been invaded by violent squatters, some of whom are paid and organised by the Zimbabwean security forces. The squatters have put little effort into growing food but much into whipping and occasionally murdering suspected supporters of the opposition Movement for Democratic Change (MDC). Mr Mugabe's only nod towards legality has been to force independent judges to retire with thinly-veiled death threats and then to replace them with lackeys.

Whatever Mr Mugabe says, he will not stop intimidating his opponents

This week, the European Union may have decided that enough is enough. Its foreign ministers, meeting in Luxembourg, demanded talks with Mr Mugabe's men about human-rights abuses in Zimbabwe; this could be a first step towards sanctions. Mr Mugabe's foreign minister said the Zimbabwean government was willing to talk about human rights, but would not be dictated to. In other words, Mr Mugabe is still playing for time. Whatever he says, he will not stop intimidating his opponents, because that is the central plank of his campaign to be re-elected next year. He believes that he can win if enough rural voters are persuaded that they will end up having their legs broken and their homes burned down if they vote for the MDC.

So what can Zimbabwe's friends do? Crude economic sanctions would hurt the poor, not Mr Mugabe's cronies. Targeted sanctions might help: a travel ban on ruling-party bosses, for example. Freezing their foreign bank accounts would hurt them more; but, though much of their money was certainly obtained through crookery, this will be hard to prove. Aid to Zimbabwe, which is already channelled largely through charities, should preferably go exclusively to organisations other than the government.

But the best hope for peaceful change in Zimbabwe is next year's presidential election, which must be held before April. If the vote is free and fair, Mr Mugabe has no chance. Clearly, it will not be free and fair. But outsiders, especially neighbouring countries such as South Africa, can lean on Mr Mugabe to make him cheat less than he would like to. They can, for example, send election monitors as soon as possible. This will not be easy; Mr Mugabe's government said this week that EU monitors would not be invited. But the more eyes that are on Zimbabwe, the less difficult it will be for Zimbabweans to prise off their concrete boots and swim for the surface.

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New York city's election

Goodbye, Rudy Tuesday

Nov 1st 2001
From The Economist print edition

New York city faces tough choices—just as it loses the only man, it seems, who can make them

AP

BROKE, wounded, grieving, New York city might feel it is owed a little good fortune. Now it is due to lose Rudy Giuliani. Next Tuesday, the city's voters go to the polls to decide whether their new mayor will be Michael Bloomberg, a rich media mogul who recently switched to the Republican Party, or Mark Green, a leftish Democrat who has spent much of his political life fighting Mr Giuliani on all fronts. Mr Green is ahead in the polls, but most New Yorkers say they would rather stick with the current irascible incumbent (who has to go, because he is limited by law to two consecutive terms).

This hankering for Mr Giuliani says a lot both about what the city has been through and about what lies ahead of it. Two months ago, most New Yorkers thought they were well rid of a politician past his prime. Mr Giuliani's first term, in which he reduced crime dramatically, may have ended with his triumphal re-election in 1997 (the first such Republican honour since Fiorello La Guardia), but the authoritarian mayor then seemed hell-bent on alienating every vocal constituency he could find. Even Margaret Thatcher, a politician he resembles, would not have tried to handbag jay-walkers and taxi drivers. Last year, cancer made Mr Giuliani drop out of his senatorial joust with Hillary Clinton; but the sympathy this won him was lost in an extraordinarily messy divorce battle.

The events of September 11th have reminded New Yorkers of Mr Giuliani's wartime qualities. While most of America's other leaders were out of sight (albeit for reasons hardly their own fault), Mr Giuliani performed defiantly. The whole country rallied to him—something that may yet be useful to a man who probably wants to be the first Italian-American president. New Yorkers, looking at their current list of problems—a $4 billion hole in the city budget, the rebuilding of lower Manhattan, the worries that some of the temporarily dislodged firms may never come back—are loth to lose a fighter of his stature. Indeed, the mayor began to talk about defying term limits; a move that many people saw as an attempted power-grab—and from which, wisely, Mr Giuliani pulled back.

So he is gone, for four years at least. Yet the need for another Giuliani—if not the real thing, then something close—is based on more than emergency management. Even if the terrorists had never struck, Mr Giuliani would be leaving behind a job half-done. His success in fighting crime was remarkable; his policy of zero tolerance turned New York into one of the safer cities in the world. But the city's administration is still horribly bloated. Its public-school system is a disgrace—not helped by the fact that, as with its lousy transport infrastructure, nobody, least of all the mayor, is really responsible for it. The symbolic capital of free enterprise is run by a Soviet-style public sector of unelected agencies and bureaucratic fiefs. The chances of a mayor disappearing into this thicket are high.

Even if the terrorists had never struck, Mr Giuliani would be leaving behind a job half-done

And yet, alongside these problems, stands a Giulianiesque opportunity. The only reason why the strident Mr Giuliani was elected back in 1993 was because the city seemed out of control. In their macabre way, the events of September 11th present a chance for change. The need to rebuild part of the city's subway means the whole system can be examined. The difficulty of raising taxes from already jittery businesspeople means that cuts must fall on the bureaucrats. In Chicago, voters have at last given their mayor direct control of the schools; a new mayor might get similar powers in New York.

Look at it this way, and the voters' choice is an unappetising one. Mr Bloomberg has spent $40m of his own money, without proving much more than that he has ambition and energy. Richard Riordan, another businessman, who made a reasonable fist of running Los Angeles, had quite a bit more political skill. As for Mr Green, he has encouragingly moved towards the centre, winning the support of William Bratton, Mr Giuliani's erstwhile police commissioner, and Robert Rubin, Bill Clinton's treasury secretary. On the other hand, Mr Green is part of the sluggish establishment that Mr Giuliani fought against; he is far closer to the public-sector unions that represent the main obstacle to change. He would be a step backwards. *The Economist* would shudder and pull the lever for Mr Bloomberg. As for Mr Giuliani, why not put him, health permitting, in charge of the CIA? It needs an overhaul.

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Britain's glorious past

History lessons

Nov 1st 2001
From The Economist print edition

Nations can learn as much from failure as from success

ARE the British really a nation of militaristic old buffers, obsessed with their success in single-handedly defeating Hitler half a century ago (the Americans, you understand, were very late on the scene, and lacking the doggedness our chaps showed) while the rest of the world speeds past them economically and technologically? That cliché irritates modern Britons. They like to think they know their place in the world these days. But what's going on in the nation's classrooms suggests that there is more to the stereotype than Britons like to admit (see article). These days, history teaching in Britain focuses almost exclusively on three episodes: Nazi Germany, the Tudors and Stuarts, and Stalin's Russia.

As subjects for the classroom, Nazi Germany and Stalin's Russia share one important feature. Lots of people got killed. For desperate teachers trying to interest recalcitrant teenagers in something that happened before last weekend, mass murder, especially when the perpetrators were two moustachioed villains, has obvious attractions.

How did we get here?

But all three subjects have something in common, too. They tend to show Britain in its best light. Studying Nazi Germany handily takes in Britain's “finest hour”, when Winston Churchill, the nation's favourite bulldog, stood up against Europe's bullies. The Tudor period, similarly, offers plenty of opportunities to dwell on plucky little England defying Catholic Europe, while Good Queen Bess, in that lovely dress, singes the King of Spain's beard. (Spanish students, meanwhile, learn nothing of the Battle of the Armada.) Soviet Russia leads on to the cold war, during which Britain displayed more pluck against big European bullies. (American history students, meanwhile, learn that Britain was a small air base off the north European coast.)

Does it matter if schoolchildren get a selective picture of their country's past? Yes. At its best, history enables people to understand the world better. Just possibly, that may make them act better, too. At its worst, history allows people to see the past as they wish to see it, not as it was. The result is that they cannot make sense of the present. Children who are taught that the past was a series of glamorous national triumphs will find it hard to explain to themselves how it is that Britain is not top dog any more, and that their prime minister is acting like a well-mannered butler to the American president.

Children: why is Britain's prime minister acting like a well-mannered butler to the American president?

Of course it is important to study Nazi Germany and Soviet Russia. They had a seismic effect on the world. But it might also be useful to reflect on national failure and humiliation. Economics may be duller than genocide, but shouldn't British schoolchildren know something about the country's economic decline over the past century? And what about the history of British or French imperialism in, say, the Middle East? Might that shed some light on the world's current troubles? The teachers of history and the designers of syllabuses have a responsibility beyond that of getting schoolchildren through their exams with the minimum of effort. Those who cannot remember the past are condemned to repeat it, as someone or other who was famous apparently said.

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Letters

Nov 1st 2001
From The Economist print edition

The Economist, 25 St James's Street, London SW1A 1HG
FAX: 020 7839 2968 E-MAIL: letters@economist.com

Going global

SIR – Your survey of globalisation (September 29th) wastes an opportunity to breathe some new life into an increasingly sterile debate.

First, you offer the traditional sacrificial lamb: "anti-globalisers" who see integration into the world economy, and even economic growth, as inherently bad for the poor. Then you assert that globalisation, and its attendant policies of trade and investment liberalisation, are the only feasible cure for world poverty. That growth is vital to poverty reduction is not in question, but your treatment of income distribution misses an important point: highly unequal countries have to grow far more rapidly than their more egalitarian counterparts to achieve the same rate of poverty reduction. That is why Latin America has been far less successful at converting economic growth into poverty reduction than has East Asia.

As evidence of the benefits of globalisation you offer us China. Yes and no. China has increased the share of GDP that is exported to around 22% (still less than sub-Saharan Africa). But like other countries that have succeeded in reaping the benefits of globalisation—eg, Vietnam, Malaysia and Mauritius—it has combined export promotion with a judicious mix of selective protection and controls on capital markets. Bluntly stated, successful integrators are not poster boys for the type of policies that you, the IMF and World Bank advocate. The real debate is about the policies needed to make globalisation work for the poor. Developing countries need less free-market advice and more access to protected northern markets; poor people need redistributive policies that enable them to share more equitably in economic growth.

Kevin Watkins
Oxfam
Oxford

SIR – You omit to mention that globalisation is a force for peace; it creates a peace interest (in the sense that peace is profitable) in each country. The peace interest arises primarily in the exporters of goods and capital. Moreover, the profit motive drives exporters to obtain information about the foreign lands in which they operate; information which they will use to offset the misinformation that is a threat to peace. (This powerful interest is celebrated in works by Karl Polanyi and Joseph Schumpeter.) The memoirs of Cordell Hull, Roosevelt's secretary of state and the architect of reciprocal trade, reveal that the peace interest was the chief motive behind the reciprocal-trade-agreements process which led to the GATT and WTO.

Convincing empirical evidence for the peace-interest hypothesis is a tall order as controlling for all the other factors which make for war or peace is difficult. One observation and one thought experiment suggest its plausibility. The American liberal-trade regime of the 1950s and 1960s owed its political possibility to the cold war and the consensus perception that peaceful containment of communism would be buttressed by liberal trade. Also, suppose that 15 years ago China had faced an outside world with closed commercial doors and no chance to trade much or get a lot of foreign investment. Would the threat of war have been less or more over the intervening period?

James Anderson
Boston College
Chestnut Hill, Massachusetts

SIR – You assert that globalisation is the most effective force for reducing poverty. You are wrong. It is

vegetarianism. Though still in the minority, increasing numbers of people are recognising its widespread benefits and making the sometimes difficult changes in lifestyle. Sadly our political and business leaders are conspicuous among us only by their absence. If animals voted we would soon see a vastly different world.

Alan Heaton
Langen, Germany

Birth control and America

SIR – You say that America's government has a ban on financing groups that offer abortion ("A pregnant pause", October 13th). In fact, the Bush administration's "global gag rule" is much broader. It prohibits funding to foreign NGOs that use their own funds to provide legal abortion services. Also, these NGOs cannot receive American funds if they provide accurate medical counselling or referrals regarding abortion, or if they engage in public debate about abortion reform. The cut in funds is having devastating effects on family-planning and reproductive-health services worldwide and threatens to aggravate further the HIV-AIDS pandemic.

Katherine McDonald
Action Canada for Population and Development
Ottawa

SIR – Africa is given few possibilities for self-determination, especially in the area of population control. In fact, most Africans are happy to have many children, seeing them as "bundles of joy"—as would most Europeans if only they thought less of personal comfort. We received with great joy the news that America had banned the financing of groups that offer abortion. The minds and hands to develop our continent are being destroyed by abortion.

Eugene Agboifo Ohu
Lagos

Continental Quebeckers

SIR – Your reading of the political mood in Quebec and the rest of Canada leaves something to be desired ("Quebec thinks continentally", October 6th). You say that "Continentalism, the term Canadians use for closer relations with the United States, is enjoying something of a renaissance throughout the country, in the form of calls for 'a perimeter wall' around North America...That runs counter to the emotional impulse for secession." Ironically, the federal government has just rejected the very notion of a perimeter wall, fearing that public opinion in English Canada would see it as an infringement on Canadian sovereignty. Indeed, Gilles Duceppe, leader of the Bloc Québécois, was a lone voice of support when the notion of a more tangible co-operation with our American partners was being debated.

Displaying the same open-mindedness which made them the first and strongest proponents of a free-trade zone between Canada, America and Mexico in the 1980s, Quebeckers are again at the forefront of a more relaxed attitude towards America. Not to mention their favouring a common currency for the Americas. Quebeckers have always thought continentally; their reaction to September's terrible events are in line with what they have always thought of their American neighbours and friends.

Daniel Audet
Quebec delegate-general
London

A dung deal

SIR – Rarely have I seen a problem and its solution so eloquently stated in two articles on the same page of an issue. You talk of the threats to caribou from drilling for oil in the Arctic National Wildlife Refuge ("How much would it really help?", October 20th) and about the prodigious manure output from the Wisconsin dairy industry ("Manure happens"). Why not use the manure in methane digesters to fuel microturbines for electricity production? There is already a pilot scheme operated by the California North Coast Regional Water Quality Control Board in co-operation with regional dairy farmers.

J.J. Gasparotti

Laguna Beach, California

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Fighting terrorism - By invitation

Could worse be yet to come?

Nov 1st 2001 | CAMBRIDGE, MASSACHUSETTS
From The Economist print edition

Whether or not Osama bin Laden has acquired nuclear weapons, Graham Allison* argues that the world must respond as though he has—and without delay

AL-QAEDA'S terrorist assault on September 11th awakened Americans to the stark reality of mega-terrorism: terrorist acts that kill thousands of people at a single stroke. In the twinkling of an eye, possibilities earlier dismissed as analysts' (or Hollywood's) fantasies became brute fact. President George Bush rightly and resolutely declared war on Osama bin Laden, al-Qaeda, and their Taliban hosts.

Yet as the American government scrambles to pursue a war for which it had not prepared, it must, in the idiom, “go with what we've got”. Assembling an international coalition of very strange bedfellows, acquiring intelligence from sources and by methods it had mostly neglected, and jerry-rigging defences against the most obvious vulnerabilities, it gallops off in all directions. It does so without a comprehensive assessment of the threats it now faces, and lacking a coherent strategy for combating mega-terrorism.

In contrast, Mr bin Laden and his al-Qaeda network have been thinking, planning and training for this war for most of a decade. September 11th demonstrated a level of imagination, sophistication and audacity previously thought impossible by the American, or any other, government. As the press has reported, just a year ago the FBI had assured the administration that it had a “handle” on all al-Qaeda operatives within the United States.

Even in the midst of the exhausting exigencies of the current crisis, responsible leaders must acknowledge the possibility that much more catastrophic terrorist acts may be yet to come. Along the spectrum of mega-terrorism, the worst case would be a nuclear explosion in a large city. Had al-Qaeda attacked the World Trade Centre not with a minivan filled with explosives, as in 1993, nor with jumbo jets, but with a vehicle containing a nuclear device, what would the consequences have been? Even a crude nuclear device could create an explosive force of 10,000 to 20,000 tons of TNT, demolishing an area of about three square miles. Not only the World Trade Centre, but all of Wall Street and the financial district, and the lower tip of Manhattan up to Gramercy Park would have disappeared. Hundreds of thousands of people would have died suddenly.

In a 1995 *Washington Post* op-ed, I warned: “In the absence of a determined programme of action, we have every reason to anticipate acts of nuclear terrorism before this decade is out.” I find no reason to revise this estimate today. The question is whether the horror of September 11th can now motivate the United States and other governments to act urgently not only against al-Qaeda, but also on the well-identified agenda

for action to minimise the risk of nuclear mega-terrorism.

How real is the threat?

As the Bush administration took office in January, a bipartisan task-force, chaired by the former Senate majority leader, Howard Baker (now ambassador to Japan), and Lloyd Cutler, a former counsel to the president, presented a report card on non-proliferation programmes with Russia. The principal finding of the task-force is that "the *most urgent unmet national security threat* to the United States today is the danger that weapons of mass destruction or weapons-useable material in Russia could be stolen, sold to terrorists or hostile nation states, and used against American troops abroad or citizens at home." (Emphasis added).

Think about it. Is this proposition correct, or incorrect? No serious analyst has spent more than a day examining the evidence without concluding that "loose nukes" are a first-order threat. Although some would argue that bioterrorism is an equal or greater danger, both count as threats of the highest order. As Mr Baker testified to the Senate Foreign Relations Committee in March, "It really boggles my mind that there could be 40,000 nuclear weapons, or maybe 80,000, in the former Soviet Union, poorly controlled and poorly stored, and that the world isn't in a near state of hysteria about the danger."

The danger can be summarised in three propositions. First, attempts to steal nuclear weapons or weapons-usable material are not hypothetical, but a recurring fact. Just last week, the chief of the directorate of the Russian Defence Ministry responsible for nuclear weapons reported two recent incidents in which terrorist groups attempted to break into Russian nuclear-storage sites, but were repulsed. The past decade has seen scores of incidents in which individuals and groups have successfully stolen weapons material from sites in Russia and sought to export it—but have been caught.

Attempts to steal nuclear weapons or weapons-usable material are a recurring fact

A few years ago Boris Yeltsin's assistant for national security affairs, Alexander Lebed, reported that 40 out of 100 special KGB suitcase nuclear weapons were not accounted for in Russia. Under pressure from colleagues, he later retreated to the official Russian line that all nuclear weapons are secure and accounted for, but his twists and turns left more questions than answers. In the mid-1990s, more than 1,000 pounds of highly enriched uranium—material sufficient to allow terrorists to build more than 20 nuclear weapons—sat unprotected in Kazakhstan. Recognising the danger, the American government purchased the material and removed it to Oak Ridge, Tennessee.

Second, if al-Qaeda or some similar group obtained 40 pounds of highly enriched uranium, or less than half that weight in plutonium, with material otherwise available off-the-shelf, it could produce a nuclear device in less than a year. The only high hurdle to creating a nuclear device is fissionable material—an ingredient that is fortunately difficult and expensive to manufacture. But as a former director of the Livermore Laboratories wrote a quarter of a century ago, "If the essential nuclear materials like these are in hand, it is possible to make an atomic bomb using the information that is available in the open literature." An even easier alternative is a radioactivity-dispersal device which wraps a conventional bomb with radioactive materials that disperse as fallout when the bomb explodes.

Third, terrorists would not find it difficult to sneak such a nuclear device into the United States. Recall that the nuclear material required is smaller than a football. Even an assembled device, like a suitcase nuclear weapon, could be shipped in a container, in the hull of a ship, or in a trunk carried by an aircraft. After September 11th, the number of containers that are X-rayed has increased to approximately 10%: 500 of the 5,000 containers currently arriving daily at the port of New York/New Jersey. But as the chief executive of CSX Lines, one of the foremost container-shipping companies, put it: "If you can smuggle heroin in containers, you may be able to smuggle in a nuclear bomb."

"If you can smuggle heroin in containers, you may be able to smuggle in a nuclear bomb"

This threat has emerged because, after the cold war, the Soviet Union's nuclear arsenal and stockpile were no longer held behind prison walls. Post-Soviet societies have experienced a remarkable transformation over the past decade, becoming simultaneously more free, more chaotic and frequently more criminalised. The same dynamic that liberated individuals also undermined systems that previously controlled some 30,000 nuclear weapons and 70,000 nuclear-weapon equivalents in highly-enriched uranium and plutonium at more than 100 sites across Russia.

Thanks to extraordinary professionalism on the part of Russian military and security guards, many attempts to steal weapons have been thwarted. The security forces have been greatly helped by far-sighted co-operative threat-reduction programmes, set up at the initiative of Senators Sam Nunn and Richard Lugar, which have contributed almost $1 billion a year. The American government knows of no case at present in which those who wish to make nuclear weapons have acquired either the weapon, or sufficient nuclear materials to make one. What must worry us, however, is what we don't know.

If Mr bin Laden and other terrorist groups have not so far succeeded in acquiring nuclear weapons, or materials from which to assemble them, we should give thanks for our great good fortune. If they have acquired them, most people will quickly conclude that, under existing conditions, this was bound to happen.

How serious is the enemy?

Andrew Marshall, one of the few long-term strategists at the Department of Defence, has often warned that "If the United States ever faces a serious enemy, we will be in deep trouble." Al-Qaeda could be that serious enemy.

There can be little doubt that Mr bin Laden and his associates want to acquire nuclear weapons, have been seeking nuclear weapons, and would carry out a nuclear assault were they capable of doing so. Last year the CIA intercepted a message in which a member of the al-Qaeda group boasted of plans for a "Hiroshima" against America. According to the Justice Department indictment for the 1998 bombings of American embassies in Kenya and Tanzania, "At various times from at least as early as 1992, Osama bin Laden and others, known and unknown, made efforts to obtain the components of nuclear weapons." Additional evidence from a former member of al-Qaeda describes attempts to buy uranium of South African origin, repeated travels to three Central Asian states to try to buy a complete warhead or weapons-useable material, and discussions with Chechens in which money and drugs were offered for nuclear weapons.

Mr bin Laden himself has declared that acquiring nuclear weapons is a "religious duty". "If I have indeed acquired [nuclear] weapons," he once said, "then I thank God for enabling me to do so." When forging an alliance of terrorist organisations in 1998, he issued a statement entitled "The Nuclear Bomb of Islam". Characterised by a distinguished Islamic scholar, Bernard Lewis of Princeton, as "a magnificent piece of eloquent, at times even poetic Arabic prose," it states that "it is the duty of Muslims to prepare as much force as possible to terrorise the enemies of God."

Mr bin Laden has declared that acquiring nuclear weapons is a "religious duty"

His *fatwa*, videotapes and interviews offer chilling clues to Mr bin Laden's thinking. In a 1997 CNN interview he observed that "the myth of the superpower was destroyed not only in my mind, but also in the minds of all Muslims," when the mujahideen defeated the Russians in Afghanistan. In his view, "the Russian soldier is more courageous and patient than the US soldier," and the United States—as seen in its withdrawal from Lebanon in 1983 after the deaths of 241 marines, and its precipitous retreat from Somalia in 1993 after 18 special-forces soldiers died—is cowardly about suffering casualties. The attack on the *USS Cole* in October 2000 is a powerful symbol for him: "The destroyer entertained the illusion

she could destroy anything," but found herself immobilised by a tiny boat. In his world, "The destroyer represented the capital of the West, and the small boat represented Mohammed."

Mr bin Laden cannot doubt that he is now at war. After the 1998 bombings of America's embassies in Africa, according to press reports, a secret presidential finding authorised the CIA to seek him out and kill him under the doctrine of self-defence. The United States launched surprise cruise-missile attacks on an al-Qaeda training camp in August 1998, but Mr bin Laden had left several hours earlier.

What will al-Qaeda do now?

Mr Bush has declared that the United States wants Mr bin Laden "dead or alive". As the noose tightens around his neck, al-Qaeda's efforts to terrorise America are likely to intensify. Al-Qaeda can be expected to do everything it can to acquire and use every mega-terrorist means within its reach.

When asked by an interviewer why his earlier claims that the battle "will inevitably move to American soil" had produced so little action, Mr bin Laden replied: "The nature of the battle requires good preparation." September 11th signals not only preparation but also a campaign that puts a premium on surprise and seeks maximum terror through dramatic effect. As al-Qaeda concludes that the American-led international coalition may succeed in destroying it, it will become more desperate in seeking to acquire and use all possible weapons of mass-destruction against its adversaries.

What must America do?

Preventing nuclear terrorist attacks on the American homeland will require a serious, comprehensive defence—not for months or years, but far into the future. The response must stretch from aggressive prevention and pre-emption to deterrence and active defences. Strict border controls to keep out smuggled containers will be as important to America as ballistic-missile defences.

To fight the immediate threat, the United States must move smartly on two fronts. First, no effort can be spared in the military, economic and diplomatic campaign to defeat and destroy al-Qaeda. Simultaneously, the unprecedented international effort of intelligence and law-enforcement agencies must seek to discover and disrupt al-Qaeda sleeper cells and interrupt attempted shipments of weapons.

Second, the United States must seize the opportunity of a more co-operative Russia to "go to the source" of the greatest danger today: the 99% or more of the world's nuclear, biological and chemical weapons of mass destruction that are stored in Russia and the United States. The surest way to prevent nuclear assaults on Russia, America and the world is to prevent terrorists from gaining control of these weapons or materials to make them.

What the Baker-Cutler report recommends

1. **Make nuclear weapons and nuclear materials safer**
   - Drastically cut the number of sites where nuclear materials are stored.
   - Close vulnerable nuclear-storage sites.
   - Speed up the improvement of security, using the latest technologies, for buildings that continue to house nuclear weapons and materials.
   - Identify, label and seal all warheads and materials, and keep a check on them.
   - Extract highly-enriched uranium (HEU) from Soviet-built research reactors, especially in ex-communist Eastern Europe.
2. **Get rid of all HEU not needed for current weapons**
   - Speed up the purchase of Russian HEU.
   - Get an agreement to make the remaining HEU militarily unusable.
3. **Control excess Russian plutonium**
   - Make an inventory of all Russia's plutonium, and get it in one place.
   - Using those new technologies, improve safety at all places where plutonium is stored.
   - Stop production of plutonium.
   - Buy and/or destroy excess plutonium by blending it as mixed-oxide fuel and burning it in civilian reactors.
4. **Cut Russia's nuclear complex**
   - Shut unneeded weapons plants soon.
   - Pay key Russian nuclear scientists money for "contract research", to prevent the flow of expertise to other countries—and terrorists—seeking nuclear weapons.
   - Provide private capital for businesses that employ nuclear scientists from the "closed cities" of the Russian nuclear complex.
   - Help Russia pay for other long-term safety measures.

The readiest sources of such weapons and materials are the vast arsenals accumulated over four decades of cold-war competition. At the November summit at Crawford, as a central pillar of what Colin Powell, the secretary of state, has called the new "post-post-cold war" partnership, Mr Bush and Vladimir Putin should pledge to make all nuclear weapons and material as secure as technically possible as fast as possible. Their best course would be to follow the recommendations of the Baker-Cutler task-force (see above). Within Russia, the programme should be jointly financed by the United States, its allies in the war against terrorism, and Russia.

In the fog and heat of a frustrating war against an elusive terrorist enemy, to call upon leaders to act to prevent attacks of a kind that have not yet occurred may seem over-demanding. But if we fail to act on this agenda now, how shall we explain ourselves on the morning after a nuclear September 11th?

Graham Allison is director of the Belfer Centre for Science and International Affairs at Harvard's Kennedy School and author of "Avoiding Nuclear Anarchy" (MIT Press, 1996). He served as assistant secretary of defence in the first Clinton administration.

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The military campaign

Steadying nerves

Nov 1st 2001 | PESHAWAR AND WASHINGTON, DC
From The Economist print edition

Reuters

A spell of doubt and disappointment has been followed by stronger action

Get article background

WHEN historians tell the story of America's war against the Taliban, they will have to acknowledge that Day 21 or so of the conflict was not its most glorious moment.

In the United States, political pundits and ordinary folk alike were grumbling more loudly about the embarrassing lack of progress in a military campaign which was supposed to destroy, or severely deter, the terrorist network responsible for the attacks on New York and Washington. Instead of boasting that the Taliban had been “eviscerated”—as the Pentagon had claimed a few days after the bombing started—the Defence Department was now admitting that the enemy had proved to be tougher than expected.

Meanwhile, anti-Taliban fighters in northern Afghanistan were complaining that American support—in the form of ammunition, or bombing raids on the other side—had been too faint-hearted and haphazard to tip the balance of power. Attempts to form an anti-Taliban opposition in the south seemed in disarray after the regime's forces hunted down and killed Abdul Haq, the best-known military commander among the Pushtun ethnic group which accounts for nearly half the country, including Kabul's current masters. He was on a mission to rally fellow Pushtuns against the Taliban, and was believed to have been carrying a large sum of money.

In Pakistan, meanwhile, popular opposition to the American war effort was gathering strength. A demonstration in Karachi attracted up to 50,000 people, the largest crowd so far; and around 10,000 would-be fighters gathered on the border with Afghanistan, offering to go and fight alongside the Taliban. Other protesters blocked the Karakoram highway that leads to China.

But if October 29th, the start of the bombing campaign's fourth week, marked a low point in morale, things seemed to improve somewhat—from the Pentagon's point of view—from that moment on. To critics who said the bombing was ineffective, and that ground troops were needed, Donald Rumsfeld, the defence secretary, had a clear answer. America did have uniformed soldiers in Afghanistan already, in “modest” numbers, and part of their job was to make bombing more effective by acting as forward air controllers.

Over the next two days, American deeds seemed to confirm those words. The bombing of Taliban positions on the front-line north of Kabul sharply intensified, and prospects for a march forward by Northern Alliance fighters—comprised of Tajik and Uzbek forces, traditional rivals of the Pushtuns—seemed to be growing. Ahmad Ziah Masood, brother of the legendary Alliance commander killed by the Taliban in September, said 10,000 fighters were preparing to march on Kabul, while another 6,000 were making a fresh push for the northern town of Mazar-i-Sharif.

But how rapidly will these offensives progress? American and British politicians still faced a delicate political problem, as Muslim leaders around the world called for the military campaign to be halted or restrained when the holy month of Ramadan starts, around November 17th. Visiting Washington, Britain's defence secretary, Geoff Hoon, said Ramadan would be “taken into account” but this did not mean the bombing would stop. American officials took a somewhat harder line, saying that Muslim armies had never stopped fighting one another in Ramadan, and the Taliban were unlikely to take a break.

The Anglo-American alliance could breathe more easily if more headway had been made in stitching together a multi-ethnic government for Afghanistan that would pose a credible alternative to the Taliban. Last week, a conference in Peshawar of some 700 anti-Taliban Afghans agreed very broadly on the need for such a government blessed by the deposed king, Zahir Shah. But the assembly ducked all the difficult issues, such as who would be entitled to choose the government.

Many Pushtuns object to the 120-strong “supreme council” proposed by the ex-king because half its members are supposed to be chosen by the Northern Alliance. And as the Pushtuns become more assertive, the northern allies grow more wary of them. A meeting of the Northern Alliance and the king's representatives was supposed to take place in Turkey this week but was postponed, ostensibly because of bad weather. That may have been a blessing; Pushtuns might have rejected any decisions that the meeting arrived at. Lakhdar Brahimi, the UN's newly reappointed special envoy, met various Afghan and Pakistani leaders in Pakistan this week, but his work of hammering out a consensus among Afghan groups is only beginning.

The drag of politics

The question now is whether the political problems facing the American-led coalition—ranging from impatience in America to war-weariness among allies, including sections of the British public, and disunity among the Afghans—will pile up so fast as to cancel out any progress that the military campaign might be making.

Pakistan's President Pervez Musharraf seemed to be making a conscious effort to lighten his allies' burden when, on October 30th, he voiced optimism about an internal revolt among the Taliban and drew back from demands for a halt to bombing during Ramadan. He insisted that the Taliban was not representative of the Pushtuns as a whole, and drew the conclusion that defections from the movement were a realistic possibility. As for the domestic opposition to his pro-American allies, it had been less powerful than he expected, and the government could cope.

Sure enough, some of the nightmares that seemed to be in prospect last weekend—a particularly dark moment, after the massacre of at least 16 Christian worshippers and a policeman in Pakistan's Punjab province on October 28th—appeared to be receding a couple of days later. The would-be Taliban warriors who gathered in Peshawar have not, so far, crossed into Afghanistan, possibly because the hard-pressed regime has little desire to feed an untrained, lightly-armed rabble. The government negotiated a suspension of the blockade of the Karakoram highway. More than a dozen people were arrested on suspicion of involvement in the massacre of Christians. (While the government has hinted that it blames India, other observers suspect Lashkar-e-Jhangvi, a group of extremist followers of Sunni Islam with a record of attacking minorities, such as Shia Muslims. The group's leader is thought to be in Afghanistan, and the attack on Christians could presage a broader effort to destabilise Pakistan.)

How good are the prospects for the sort of government in Afghanistan which its neighbours, and the anti-terrorist coalition, would accept, in other words one with a large Pushtun component but untainted by association with the Taliban or the al-Qaeda movement of Islamist terror? The death of Abdul Haq was certainly a blow to these hopes, but perhaps its effects were more psychological than strategic. Mr Haq, despite his terrorist past, was a western favourite, articulate in English and apparently earnest about bringing peace and good government to his country. Although the Taliban executed him on grounds of spying for the United States, he was no American lackey. He called America “the stupidest country in the world about Afghanistan” and he was infuriated by the bombing campaign. Afghans, he believed along with almost all his countrymen, could free themselves.

Mr Haq's ill-fated mission was not part of any grand plan. “He went in [to Afghanistan] out of frustration, seeing total paralysis” among anti-Taliban Pushtuns, says an official familiar with his activities. His intention, apparently, was to encourage rebellion among Pushtun tribes near the border. The only support he seems to have received from the American government was a failed rescue attempt, called in

when he was fighting off his captors in a canyon. His death was “not much of a setback,” says the official, because there is not much organised resistance to set back.

But the Pakistani frontier city of Peshawar is still teeming with exiled Pushtun commanders, who say the only thing holding them back is the absence of support from the United States and its allies. Haji Muhammad Zaman, once a fighter against the Russians, claims to have 200 commanders at his disposal.

With an army of 10,000, drawn from Afghan refugee camps inside Pakistan, he says he could liberate four provinces in Afghanistan's east. Tribal leaders inside Afghanistan are waiting for his call. Haji Zaman, in turn, is waiting for money and air support from the West. That he has so far waited in vain indicates the coalition's doubts about the motives and capabilities of such commanders.

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The bombing of Bagram

From the control tower

Nov 1st 2001 | BAGRAM
From The Economist print edition

A serious American attack on Taliban positions

Get article background

HE IS not the emperor of all he surveys, but perhaps he will be soon. On October 31st General Baba Jon, the commander of anti-Taliban forces at Bagram air base, 35 km north of Kabul, sat on a chair in the airport's control tower and observed one of the heaviest American bombardments of the war. As a huge B-52 bomber lumbered overhead releasing dozens of bombs, he jotted down the times and places of the strikes on a small slip of blue paper.

The bombs fell on Taliban positions on the southern and western edge of the runway. It was the tenth day that these lines have been bombed, and the fiercest yet. Fighter-bombers passed overhead repeatedly. In the distance, trails of dust could be seen rising from Taliban vehicles racing to and from the front.

Bagram air base was once the biggest in Afghanistan. Now its buildings are bombed-out shells, and wrecked tanks and old fighter-jets lie around like discarded toys. In the control tower, equipment is in ruins; there is no glass in the windows and a shell hole in the roof.

By contrast Bagram's runways, capable of landing the largest planes, appear to be undamaged. Donald Rumsfeld, America's secretary of defence, has mooted the idea of special forces taking control of an area inside Afghanistan and launching raids from there. If the Taliban could be driven off the hills overlooking the air base, Bagram would be ideal. Some of the 100 or so American military men which Mr Rumsfeld says are now in Afghanistan have been spotted at Bagram. They are certainly helping guide in the American bombs, but they may be looking at the airport as a base.

Despite the ferocity of the attacks, General Jon is unconvinced. Before the Russians were driven out, he fought with them in the Afghan army against the mujahideen. “This is still not enough to make the Taliban run,” he says.

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The West's favourite warlord

As good as it gets

Nov 1st 2001 | FAISABAD
From The Economist print edition

Ismail Khan, a moderate Afghan leader, is a bright spot in a gloomy landscape

AP

A rebel on horseback

AMONG all the gangsters, warlords, tribal chieftains and plain bigots who make up Afghanistan's political spectrum, one man stands out as something rather better: a soft-spoken 60-year-old former army officer called Ismail Khan.

In 1979, Mr Khan led one of the first uprisings against the Soviet-backed regime, which had just used helicopter gunships to kill some 20,000 people in his home city of Herat. That was the start of 13 bloody years in the resistance, some of it on horseback, some of it in the ruins of Herat, once the cultural capital of Afghanistan. In 1992, Mr Khan took control of most of the west of the country.

By the standards of the time and place, his three-year rule there was both peaceful and enlightened. The former regime's military commander could be seen wandering unmolested through the bazaar. Justice was dispensed at peripatetic hearings held in the open air in villages around the region: not exactly democracy, but certainly open government. Mr Khan encouraged the opening of schools, often regarded with distrust in backward villages. “The Koran says you must go even to China in search of knowledge,” he would argue. Tens of thousands of women and girls gained an education.

It did not last. Betrayed by other commanders, he lost Herat to the Taliban in 1995. In 1997, again as a result of betrayal, he was captured and spent nearly three years in prison, mostly chained to a pipe. He escaped to Iran in March last year, and a year later returned to Afghanistan to open a new anti-Taliban front.

It has gone quite well. His original band of 20 fighters has grown to 5,000. He now claims to control four-fifths of Bagdhis province, and to have seized half-a-dozen new bridgeheads elsewhere in the past two weeks. In a day-long battle on October 29th, he said this week by satellite telephone, his forces captured 31 Datsun jeeps, 4 Kamaz trucks, 60 Kalashnikovs and 21 assorted machineguns.

Good stuff. But he is still short of supplies (“We have to get our bullets one by one,” he says). And 200km of Taliban territory lie between him and the next bit of opposition-controlled Afghanistan. Victory will require more military support from outside, better co-operation with the Uzbek opposition forces in the north, and a weaker, demoralised Taliban. A tall order.

So far, though, he seems confident enough. Unlike his Iranian backers, he supports the American bombing. He would prefer even greater accuracy, but as he notes: “If this was the Soviets instead of the Americans, there would have been 2,000-3,000 civilian casualties in Herat so far, not just 100.”

At best, Mr Khan might again end up in charge of western Afghanistan. The really big question is what would happen then. As a Persian-speaker, he has little chance of gaining enough support from the majority Pushtun population to become a national leader. His relations with other opposition commanders, unsurprisingly, range from tepid to icy. He speaks enthusiastically of a democratic transitional government and of “free-as-possible” elections. But it is hard to imagine either.

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Afghanistan's forests

Bare mountains, poor people

Nov 1st 2001 | FAISABAD
From The Economist print edition

Missing trees reflect the country's woeful recent history

Get article background

WHITE peaks, brown hills, a muddy river and pungent blue wood-smoke in Faisabad, the largest city in opposition-controlled Afghanistan, all mark the opening of the latest chapter in the dismal story of the country's environmental collapse. Afghanistan is now losing its last trees for firewood, or for export by the Pakistan-based logging mafia. The latest estimates are that forest cover is now below 0.5% of the country's land, down from more than 3% in 1980. By 2005, environmentalists fear, all the natural woods will have gone.

Like most Afghans, Faisabad's population of more than 100,000 relies entirely on firewood for cooking and heating. The price in the bazaar is soaring as snow starts to cloak the mountains—a sign of winter's arrival in the valleys sometime next month. A donkey-load of fuel to provide warmth for a family for a few days costs $7—more than the average weekly wage.

“The wild trees that we can reach have gone. Now we are buying wood from farmers, who are cutting their trees because they have nothing else to sell. When that is gone, only God knows what we will do,”' says a wood-trader in the bazaar. Nearby, a three-year-old child picks up some crumbs of donkey dung and puts them carefully in a bag she is dragging behind her. For families that cannot afford firewood, dried animal droppings are the last resort.

Last winter, aid agencies started providing other fuel, such as coal and paraffin, for destitute families. This winter they plan to do more, probably also including liquid-fuel stoves, which few Afghan families own. For a sickly and ill-nourished population, the fuel shortage will make things even worse. Poorly-cooked food brings stomach bugs, and unheated homes mean coughs, colds and worse.

Twenty years ago, when Afghanistan still had a functioning forestry service, the hills around Faisabad were thickly wooded. Since then deforestation, a three-year drought and poverty have formed a vicious circle. Wars since 1979 have ended all controls, while greatly increasing the number of poor people desperate to fell any tree they can find. Now the hills are a barren brown in all directions.

When the trees go, the soil follows. The first rain of the year, which fell last week, turned the Kukcha river, a snow-fed torrent that rushes through the town, from its normal milky jade to a muddy brown. Water sweeping off the mountains also causes floods, which destroy irrigation canals and can even sweep away the mud huts in which most rural Afghans live.

Many of the trees smell delicious when burnt. But the scent is bitter-sweet. When alive they were rural money-makers: the source of mulberries, walnuts, juniper berries, apricots and pistachios. Even with a mighty forestation effort, they will take a generation to replace.

There are some glimmers of hope. A Norwegian aid agency is persuading villages in the Keshem region, where there are still some natural forests, to appoint local forest wardens, who are paid in sacks of donated wheat. Villagers there hear lectures on conservation at Friday prayers in the mosque. There are pilot-projects with fast-growing trees that can be pollarded for firewood, and drip-feed irrigation for saplings. One ingenious device generates gas from animal droppings, replacing firewood altogether. Dig a deep hole, add 60 kilos of dung and 60 litres of water every day, and you will generate enough methane for a 16-person household.

All these are good ideas, no doubt. But none of them will have much effect without peace and a proper

government.

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Correction

Nov 1st 2001
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Our piece on Muslim reaction to the war (October 20th) mistakenly referred to a Gallup poll of urban opinion in Pakistan. This poll was not commissioned by the Gallup Organisation, but by the Business Research Bureau in Pakistan. Our apologies for this error.

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The home front

Looking hard for an enemy—and for better news

Nov 1st 2001 | WASHINGTON, DC
From The Economist print edition

The domestic war on terror is not going smoothly. Politicians and the media seem in more of a panic than ordinary people

THIS was the capital's most anxious week since September 11th. On Monday the government issued a red alert that terrorist attacks were likely in the next week, either at home or against American interests abroad. John Ashcroft, the attorney-general, put the security forces who guard nuclear power stations and other bits of critical infrastructure on high alert.

The warning was grim because it was not issued lightly. Mr Ashcroft's people are reluctant to worry an already tense population unnecessarily, particularly as they have no answers to the three main questions: what, when and where. They also fret about crying wolf too often. (Their last warning was on October 11th, and nothing happened.) Two things persuaded them to go public: an unusual volume of talk about a forthcoming “big event” emanating from various terrorist enclaves and the consistent use of an (unrevealed) codeword.

The warning came amid yet more dire news about anthrax. A swathe of federal buildings and the Supreme Court have now been infected with the stuff. On October 31st, a New York hospital worker died of inhalation anthrax, bringing the number of deaths to four. She had had no contact with government or media postrooms, so the disease seems to have infected the general mail. Anthrax has turned up in two local post offices in Washington. People have taken to taping up their letter boxes and asking postal workers to leave the letters outside.

Add in the frustrating news from Afghanistan, and the exhilaration that swept through the capital after America's decision to “strike back at terror” has now evaporated. Of course, reverses in any war are inevitable. But behind the individual setbacks are three feelings that help explain the general mood of discombobulation in Washington.

•**Loss of control.** The point about being the mightiest nation on earth is that you get to dictate events. Now even the nation's capital is having to accommodate itself to the terrorists' agenda. The Supreme Court is meeting outside its white-columned mausoleum for the first time in 66 years, slumming it in a federal courthouse. (The justices even have to drink water out of ordinary glasses rather than their accustomed silver tumblers.) Most senators will remain locked out of their offices until the middle of next month while the Hart Building is fumigated with chlorine gas. Thousands of government workers are on a regimen of precautionary antibiotics.

The administration's attempts to prove that it is in control have been patchy. On Monday George Bush convened the first meeting of his new Homeland Security Council. He used the meeting to announce various sensible procedures for tightening visas and screening foreign students. But the little comfort that this brought was soon displaced by more disconcerting news about the spread of anthrax.

•**Confusion.** One of the reasons why the president's speech to Congress in September was so stirring was its clarity. America was at war with terrorism, and the rest of the world had to choose between being “with us or against us”. Now that formula seems ever harder to apply to the real world of foreign affairs. Saudi Arabia, for instance, provided 15 of the 19 hijackers and refuses to freeze terrorist assets. Yet Mr Bush sees it as a staunch ally.

But most of the problems are on the home front. In part this is because the anthrax-wielding enemy at home is even more invisible than the cave-dwelling enemy in Afghanistan. But it is also because the domestic front has been a study in disorganisation.

The investigation is plagued by turf wars that are both tedious to outsiders and extraordinarily disruptive to insiders. The FBI has been so bad at sharing information with local police forces that New York's mayor, Rudy Giuliani, has called for laws to change the agency's habits. The FBI also has its complaints. It is now looking for six middle-easterners who were stopped by police in the mid-west and then released—despite the fact that they possessed boxcutters and photographs of a nuclear power plant in Florida and of the Trans-Alaska pipeline. Apparently, the police decided it was not worth notifying the FBI because the suspects' passports seemed to be in order.

•**Frustration**. Most people are surprisingly patient about the war, but not about the anthrax investigation. Two weeks ago, investigators were supposedly closing in on the culprits in New Jersey, where three anthrax-laden letters were posted and a postal worker came down with the skin version of the disease. Now the investigation is widening again, with suspicions swinging wildly between Osama bin Laden's network and domestic terrorists.

This uncertain mood is beginning to cause tensions between the White House and the press. After six weeks of sympathetic coverage, the media have turned on Tommy Thompson, the health secretary, and Tom Ridge, the homeland security tsar. Officials have been castigated for giving anthrax tests and antibiotics to congressional staffers while sending postal workers (who often happen to be black and working-class) back to work. Even Capitol Hill's police dogs were treated better than the postal workers.

It generally gets better

So are Americans beginning to turn against the war in the same way that Europeans may be? This seems unlikely. The anthrax-induced funk in the newsrooms and political offices does not seem to have spread to the heartland. Most ordinary Americans never took on the idea that the war would be simple or quick. A recent *New York Times*/CBS News Poll showed nervousness about the conduct of the war increasing a little. But it also showed that Mr Bush's job-approval rating stands at 87%, and only 13% think that the war in Afghanistan is going badly.

The past also provides reason for optimism. The Bush administration's favourite historian is Jay Winik. The president is apparently reading his book, “April 1865: the Month that Saved America” (HarperCollins), and the vice-president recently invited him to dinner to reflect on some lessons of history. Mr Winik points out that most American wars have started poorly. During the civil war, Abraham Lincoln at first called up the troops for a mere three months. Congressmen were so confident of victory that they turned up to watch the battle of Manassas with their wives, parasols and picnic baskets. The country went into the second world war with nothing more than a skeletal navy and an untrained army. In February 1942 Franklin Roosevelt was so depressed that he told the American people it looked as if the British were finished and the Americans weren't up to the job.

These were all wars that could be seen coming. The current calamity came from a clear blue sky. There will undoubtedly be more setbacks before America gets its act together, just as there were in the past. But this is not a war that America, and the world, can afford to lose.

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The Pentagon

Changing, yes—but fast enough?

Nov 1st 2001 | WASHINGTON, DC
From The Economist print edition

The world's biggest defence contract shows the old guard is still in control

THE terrorist attacks of September 11th are supposed to have altered profoundly the way in which American politicians look at the world. But has there been a big enough change in the world view of the Pentagon's planners and paymasters? Not yet, say the advocates of a radical reform of the armed forces—and this week's order of a vast number of Joint Strike Fighters seems to back them up.

AP

Clever, but not transformational

The reformers are more certain than ever that methods of fighting have to change. Ralph Peters, a retired special-forces colonel and writer on military affairs, believes the armed forces face “the most dramatic decade of global change since the 1940s”. Changes in both the nature of military threats and the technology available to deal with them are breaking down the old distinctions between land, sea and air warfare. Specialist ground troops will be backed up by an array of high-tech weapons operating from far and near: satellites and long-range bombers as well as helicopters and nimble, “stealthy” aircraft. There will be less need for heavy artillery or for aircraft that can do dog-fights with a non-existent foe.

Such views have their supporters within the Pentagon, notably Andrew Marshall, the architect of the current defence review. But if radical change lies ahead at the Pentagon, there was little indication of it on October 25th, when the biggest-ever conventional weapons-building programme—the Joint Strike Fighter (JSF)—was awarded to Lockheed Martin. The first contract to develop and produce this multi-role, multi-service aircraft is worth only $19 billion, but the eventual value of the programme may well exceed $200 billion. America's air force hopes to buy 1,763 of the new fighters; its navy wants 480 and the marines 609; Britain is buying 150.

For some radicals, these 3,000 aircraft are a missed opportunity. Andrew Krepinevich, a lively think-tank man, believes that the war in Afghanistan reveals the value of long-range bombers, carrier-based fighter-bombers and (although they are only in their infancy) unmanned strike aircraft; and the relative uselessness of short-range aircraft that need bases on the soil of queasy allies. In his view, the logical, bold step would have been to cancel the land-based JSF and go ahead only with the naval version. This would have liberated the money needed to develop unmanned aircraft, renew the fleet of long-distance bombers, and pay aerospace designers to look creatively into the future.

Alas, the JSF decision seems to have less to do with the future of warfare than with raw political muscle. It was backed by America's Marine Corps, which sees this aircraft as its best hope of holding on to a major role in air warfare. Britain wants the JSF for its proposed new aircraft carriers.

The decision to choose Lockheed, as designers at Boeing admit through clenched teeth, was not whimsical. Each company had to solve the challenge of

Other defence

“short take-off and vertical landing”—known as STOVL—for the marines' version of the aircraft, while staying as similar as possible to the more conventional models going to the navy and air force. The Boeing solution was less risky technologically, but in the Pentagon's view it might have limited the performance of the other versions of the JSF. Once Lockheed had shown that its candidate could shoot pretty well straight up, its success was assured.

companies will be crowding round Lockheed, looking for crumbs

For Lockheed, this is a welcome vote of confidence. Its plan to combine with Northrop Grumman was blocked by the Clinton administration; Titan rockets, made by Lockheed, kept blowing up on the launch-pad; it lost a huge spy-satellite contract to Boeing; and its transport aircraft, the C130J, failed to sell as well as expected. Now the rest of the world's defence industry will be crowding round the Lockheed table looking for crumbs.

Among them will be Boeing. The wounded giant is already having to lay off 30,000 workers because of the decline in civil airliner orders; and it is stuck in a nasty wrangle with Hughes over the latter's satellite division, which Boeing bought. Loss of the JSF, a huge blow to Boeing's military wing in Missouri, cuts about $1 billion off Boeing's previously forecast revenues of $56 billion for 2002. But the damage is liable to pile up over the years.

For the moment, the Pentagon says that sub-contracting is at Lockheed's discretion. And Lockheed, it seems, has told Boeing to take a running vertical take-off. But over the next seven years, as the JSF moves from development to production, Missouri's politicians will want the Pentagon to give work to Boeing. It is already close to awarding a huge contract for in-flight refuelling tankers based on Boeing's 767 wide-bodied airliner, and operations in Afghanistan could trigger orders for huge Boeing transport aircraft. Such contracts, with no big need for development spending, could be useful cash-cows.

Boeing's other grain of comfort is that the JSF will probably be the last manned fighter ever. Boeing is well placed in early work on the unmanned aircraft that will now play an increasing role in warfare—assuming that the Pentagon eventually embraces the radicals' views on the subject. On this week's evidence, however, that is less than certain.

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The victims' compensation fund

A fragile peace

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Unless the government is very careful, families may yet opt to sue

ON THE face of it, the attacks on Washington and New York knocked the litigiousness out of American lawyers. When Congress passed the airline bail-out bill two weeks later, it also set up a victims' compensation fund designed to discourage lawsuits. Families who seek relief from the fund must give up both their right to sue and their right of appeal from the decisions of the fund's "special master". The bill passed without a murmur. The president of the American Trial Lawyers Association, Leo Boyle, patriotically called for a moratorium on civil lawsuits related to the attacks.

That may now be ending. The Department of Justice will release the administrative rules governing the fund and name its special master in the next week or two. After a time for public comment, the fund will start giving pay-outs to the families, thought to number 15,000 people.

The fund could behave in two ways. It could decide that it is primarily a humanitarian effort, treating victims' families as in need of relief rather than of compensation. The average awards per life might then be fairly small, but would reflect the plight of the family (so a fireman's widow with four children would do better than a rich banker's childless one). But it is more likely that the fund will see itself as a jury dispensing compensation in a wrongful-death case. A formula that incorporates lost future income would yield larger awards (and also favour the banker's wife).

One reason for most families to stick to the fund is that, unlike the two airlines, which now have a legal cap of $3 billion apiece on their total liabilities, there is no such limit on the fund's pay-outs. Guesses of the government's possible bill range from $15 billion to $40 billion. On the other hand, the fund's rules specify that any money received from "collateral sources" such as insurance and pension funds must be deducted from the fund's award. Wealthier well-insured families could stand to receive nothing from the government, and decide to sue instead.

Some trial lawyers are suspicious of the fund. Aaron Broder, a New York aviation lawyer, complains that, while the claimants were discouraged from talking to lawyers, the insurers and airlines "hit a button in the middle of the night and 100 lawyers fell out of their beds and headed straight to Congress". The special master will have split loyalties—trying to keep the families happy, but also trying to keep the total bill down. Some families have begun to consult "no-win, no-fee" lawyers.

Who else (apart from the airlines) might pay up? A Philadelphia lawyer has filed suit on behalf of one World Trade Centre widow against Osama bin Laden and the government of Afghanistan (the American Treasury has paid claims awarded against terrorist states). Other possible defendants include Boeing or the managers of the twin towers (though such cases would have to queue up behind still-pending ones from the 1993 World Trade Centre bombing). If the fund's decisions seem unfair, no doubt there will be fertile ground for litigation there too.

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California's Republicans

Fighting fit

Nov 1st 2001 | LOS ANGELES
From The Economist print edition

Richard Riordan's chances of rescuing his fratricidal party look slim

THE zeal of California's Republicans has never been in doubt. Ronald Reagan's conservative revolution was born beneath the palms of Orange County, and the modern anti-tax movement first showed its strength in California. But emotion is a dangerous guide in politics, and for the past five years the state's Republican Party has been paying an increasing price for letting passion overrun pragmatism.

First, attacks on illegal immigration backfired, repelling Latino voters, the fastest-growing part of the Californian electorate. Then the fury turned inward, pitting anti-abortion right-wingers against sexual liberals in battles that even led to lawsuits between fellow Republicans over disputed primary elections. The result was a wipe-out for the party in the 1998 elections, with Republicans pummelled in the races for governor and the Senate and various local contests. More losses followed in last year's general election, including five congressional seats.

So California's Republican convention in Los Angeles on October 27th was an attempt to recover some election-winning self-discipline. A new set of by-laws was approved, installing professional managers, and subtly shifting influence from conservative enthusiasts to more cautious establishment types.

However, even while this new unity was being celebrated on the podium, fratricide was the order of the day in the manoeuvring for next year's gubernatorial race. Gray Davis, the Democratic incumbent, may be vulnerable. A year of panic over electricity supplies has put a dent in the state's finances that will be even harder to repair in a deepening recession. With the Republican primary set for next March, all the likely contenders were at the convention.

At this stage, only one looks a real threat to Mr Davis: Richard Riordan, who stepped down in June after eight years as mayor of Los Angeles. The most recent Field opinion poll at the end of September put him narrowly ahead of Mr Davis, 45% to 42%, despite having neither officially declared his candidacy (something he plans to do on November 6th) nor campaigned.

Mr Riordan oversaw the recovery of Los Angeles from recession, riots and earthquake, earning himself popularity in a city that is normally one of the two Democratic hubs in the state. He is moderate on social issues such as abortion and gun control, which have put many Californians off the Republican Party, but economically conservative. A pragmatist, used to working with Democrats, he could credibly attack Mr Davis's “mismanagement” of the state's finances, which have gone from a general-fund surplus of $10 billion to an equally large deficit in just a year's heavy spending on electricity.

Gray skies ahead

Yet some of the qualities that might endear Mr Riordan to the broader swathe of California's voters could undo him in the Republican primary. Bill Jones, the secretary of state and the only Republican now in a statewide elected office, is his strongest rival. Mr Jones spent much of his energy at the convention putting the boot into Mr Riordan for being insufficiently loyal to the party. Surrounded by posters enumerating Mr Riordan's financial contributions to the campaigns of various Democrats (including Mr Davis), Mr Jones and his team insisted that Mr Riordan would be unable to mount a strong assault on the governor.

Mr Jones has problems of his own. Unlike Mr Riordan and William Simon, the distant third candidate, he is not independently wealthy, and his fund-raising is off to a slow start. And, despite his claims to command the Republican heartland, he has a loyalty problem himself. He did not endear himself to

George Bush by switching his support to John McCain during the Republican presidential primaries.

For Mr Davis, a ruthless campaigner who stepped back to let his opponents fight each other to a standstill in his first election as governor, the prospect of a bloody Republican primary is welcome. His chief adviser, Gary South, hovering on the fringes of the convention under the baleful gaze of young Republican delegate-minders, promised that, whoever emerged as the Republican candidate, Mr Davis would be waiting to clobber him. But he seemed to lavish special scorn on Mr Riordan's chances. Perhaps that is one Democratic compliment for Mr Riordan that Republicans should pay attention to.

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Afghan America

Home is where the heart is

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Life in Little Kabul, California

THE flags are the clue. Searching for “Little Kabul” out of the window of the bus as it rolls past the bungalows and mini-malls of Fremont Boulevard, your eye is caught by a display that even in these patriotic times looks extreme. The Arman family has festooned its “98¢ And Over” shop with the Stars and Stripes, as well as posters showing Osama bin Laden's face in the cross-hairs of a rifle sight.

The message is loud, but complicated. In part it is an outburst of the patriotism seen all over America, fired by the passion of an immigrant family for its new home. In part it is defensive, designed to ward off xenophobic attacks. But it is also a declaration of independence by Afghan-Americans from the man who hijacked their homeland by taking refuge in it.

About 10,000 Afghan-Americans live in Fremont, and its cluster of restaurants, grocers, insurance firms and travel agents is a centre for maybe another 30,000 Afghans in the greater Bay Area. The seeds of the community were planted by a local charity that helped to house refugees from the war with the Soviet Union.

It may not look impressive, but “for us, it really is Little Kabul”, says Wali Shaaker, president of the Society of Afghan Professionals, a local business group. In Fremont the strands of friendship and commerce that bind a community come together in a tight knot. Here, says Mr Shaaker, you can bump into people you are looking for in the street, and catch up on the news.

DeAfghanan Kabob House features skewers of lamb and anti-war leaflets

In the DeAfghanan Kabob House, customers listen to tapes of dutar music while they wait for skewers of lamb hissing over charcoal. On the wall, a framed photograph of a former Afghan defence minister, immaculate in the uniform of a 1920s army officer, stares out above posters of Kabul. On the counter a pile of leaflets invites people to “become the voice of the poor and starving people of Afghanistan” and join an anti-war march in protest at “the killing of innocent civilians”. That is not how he feels himself, explains the owner of the café, but he wants everyone in the community to have his say.

There is understandable worry about the effects of the bombing, even among those who support it. Afghan civilians deserve the same protection and respect as American civilians, says one person. America's decision to intervene brought a sense of relief. The Taliban, by and large, are detested. Even so, the Afghan-Americans, many of them veterans of the Soviet war, are sceptical about both the Northern Alliance, which some regard as little better than the Taliban, and Pakistan, which is assumed to want a weak Afghanistan.

The best hope for Afghanistan's future may lie in Little Kabul and other clusters of Afghans, such as those in Los Angeles and Alexandria, Virginia. Many of these people were once among the brightest and best educated part of their homeland. They might rally to a post-Taliban government built around the figurehead of a restored king. That includes the younger generation: at a meeting of the Society of Afghan Professionals, all 50 people present, most of them youngsters when their families left, declared themselves willing to go back to Afghanistan.

Little Kabul's residents complain that the king is surrounded by old men who quit the country with him 30 years ago. And they worry that their traditions are being sucked into the American melting-pot. Mr Shaaker's society offers language and history classes and a summer camp for local children. The cultural flame that burns in Little Kabul may yet revive the life of the old city back in Asia.

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Lexington

The imperial presidency

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Power is returning to the White House. But George Bush's room for manoeuvre is still circumscribed

AUTUMN has hardly begun, and yet Washington is already enveloped in an impenetrable fog. Most people do not have a clue where they are going, and the few who do are not telling. But at least one thing is clear amid the general confusion: the United States is witnessing the most dramatic expansion in presidential power for a generation.

In the 28 years since Arthur Schlesinger attacked Richard Nixon's “imperial presidency”, the prevailing feature of the office has been its weakness. The Watergate scandal enormously increased Congress's power to monitor the White House, introducing an obsession with process that even “strong” presidents, such as Ronald Reagan, had to endure. The growing impertinence of the media, the movement for states' rights, even the political apathy of a prosperous country, all gradually chipped away at the imperial stucco. The end of the cold war seemed another body-blow. Bill Clinton's hyperactivity did not save him from earning headlines about “the incredible shrinking presidency”, and his habit of using his official powers to conceal his personal failings only undermined the structure further.

George Bush's presidential campaign last year was designed for this era of diminished expectations. His mantra was localism at home and modesty abroad. Compassionate conservatism was all about little local acts of charity. As president, Mr Bush has seemed happiest away from Washington: hence his decision to spend all of August on holiday. At his desk he often seemed half-hearted, an aristocratic scion doing something slightly tedious to please his family. The morning of September 11th found the leader of the free world reading to schoolchildren, trying to push through relatively minor education reforms.

The distracted dilettante has become a purposeful monarch

The collapse of the twin towers jolted both Mr Bush and his office back into life. Washington immediately reorganised itself around the executive branch. And Mr Bush equally immediately reorganised his presidency around the struggle against terrorism. The distracted dilettante became a purposeful monarch. Almost at once, the administration persuaded Congress to approve a $40-billion recovery package that also strengthened intelligence and security. An anti-terrorism bill that hugely increases the executive's power was also passed quickly.

But it is not just a case of specific powers forged anew. For years, America's political culture has been strongly anti-authoritarian. Republicans have called for power to be returned to the states and to

individuals. Democrats have peddled conspiracy theories about the army and the intelligence agencies. Now the opinion polls show a greater appreciation not just of big government but also of the work of once-demonised institutions such as the FBI and the CIA. About 1,000 people have been detained without much more than a whisper of dissent. Mr Bush's revived presidency comes equipped with a powerful armoury.

Which is exactly as it should be. In “The Federalist Papers” Alexander Hamilton pointed out that war naturally increases the executive at the expense of the legislative authority. He also explained why this should be so: “The direction of war most peculiarly demands those qualities which distinguish the exercise of power by a single hand.” The commander-in-chief is the single uniting voice in a political system that institutionalises babble, with 100 senators and 435 representatives.

How will all this change Washington? Most importantly by shifting attention from means to ends. In the 1990s Washington was obsessed with due process. Now the only thing that matters is results. The president has almost unprecedented powers to shape the political agenda and direct the flow of information. The leak-happy city of Mr Clinton's days has been silenced. In October the president told the members of Congress that he would cease sharing information with them if they continued to hand it to the press. They have meekly complied.

There is probably more of the same to come. The White House has actually been fairly restrained, so far, in its recapture of power. For instance, the failed move to give Tom Ridge, the new homeland security tsar, a full-blown department came from Congress rather than Mr Bush. And wars have a way of putting muscle into the president's hands. Abraham Lincoln happily imprisoned troublesome congressmen during the Civil War. Woodrow Wilson crushed any opinion that he considered “disloyal, profane, scurrilous or abusive”. Franklin Roosevelt interned 120,000 Japanese-Americans without consulting anyone. Should another terrorist attack happen, both Congress and the public will be begging the president to seize even more power.

In terms of partisan politics, the increase in presidential power is not producing the dividend Republicans would like. In 1943, FDR disappointed hard-line progressives by telling them that “Dr New Deal” would have to transform himself into “Dr Win the War”. Mr Bush is having to do much the same with his conservative base. Indeed, the importance of appearing to be above the fray is severely limiting Mr Bush's ability to raise funds or campaign for embattled Republicans. Sitting presidents should be vacuum-cleaners for party funds. But Mr Bush recently failed to turn up to a $1m “evening with the president”, leaving Dick Cheney to take his place. His absence from the campaign trail is likely to hurt Republican candidates running in tough gubernatorial races in Virginia and New Jersey.

If the need to stay bipartisan is one constraint on Mr Bush's re-imperialised presidency, the other is the necessity of winning the war. The memory of Vietnam still hangs heavily over Washington. Another quagmire would surely lead Congress to make an attempt to rein in presidential power. But the comparison should not be pushed too far. America always had the option of withdrawing from Vietnam. No such option exists in the war on terrorism. Autumn fog notwithstanding, Americans know that they have to pursue this war to the end; and that the only way to do that effectively is to rally around Caesar.

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Argentina's economy

Down, and almost out, in Buenos Aires

Nov 1st 2001 | BUENOS AIRES
From The Economist print edition

AP

Argentina's defence of its currency board looks close to ending in defeat and default. What went wrong?

Get article background

AT DUSK in a gritty backstreet of Mataderos, a Buenos Aires suburb that was once a centre of the international meat trade, a ragged line of several hundred people spills out from the Caras Sucias (“Dirty Faces”) charity soup kitchen into the square outside. They are queuing for an evening meal, a thin stew of rice with small lumps of sausage and carrot, and, on this occasion, a rare handout of flour, pasta and a few oranges. Many say they have had no jobs for years. In what was long the richest city in Latin America, “each year, there's more and more hunger and less and less hope”, says Monica Carranza, who runs the soup kitchen.

Income per head in Argentina was similar to that of France, Germany and Canada in the 1930s. Populism, economic isolationism and inflation then saw Argentina fall back. But in the 1990s, it appeared to have found its way again. Carlos Menem, a Peronist, and Domingo Cavallo, his economy minister, adopted a currency board which pegged the peso at parity to the dollar, opened the economy and privatised everything they could. It seemed to work. Inflation was killed, capital poured in, and the economy grew at an annual average rate of 5.7% from 1991-98.

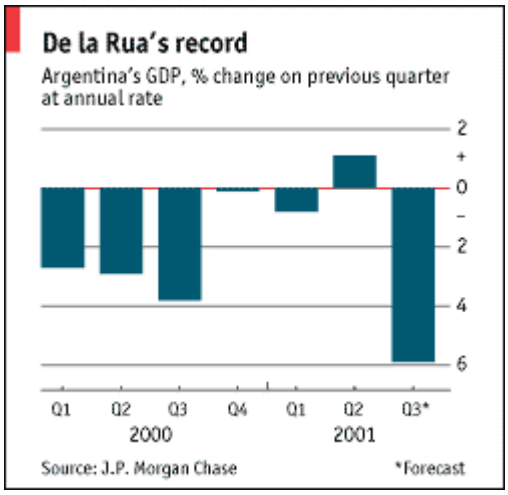
But those days now seem a distant memory in Buenos Aires. The rigidity of the currency board, which rules out both devaluation and independent monetary policy, has meant that Argentina has had to adjust to a tougher world through deflation. An economic recession is now well into its fourth year. Boarded-up shop fronts are common in the capital's centre, many restaurants have more waiters than diners, car factories are laying off workers, and several football clubs are months behind in paying wages. Open unemployment stands at over 16%; another 15% are “underemployed”. Wages in manufacturing have fallen by up to a fifth (in nominal terms) in three years, reckons Martin Redrado of Fundacion Capital, a think-tank.

Exporters complain that the peg to a strong dollar means that they cannot compete in their main markets, such as Brazil whose currency has devalued by 28% this year. “There have been two Argentinas,” complains Jose Ignacio de Mendiguren, of the Industrial Union, the manufacturers' lobby. “Privatised services and foreign bank branches have been fantastically profitable. The Argentina that has to compete with the world has done very badly”. He fishes out a box of groceries to show that Argentina is importing beef from the United States, tinned sweetcorn from France, mashed potatoes from Chile, and toothpaste and lightbulbs from Brazil.

As for Mr Menem, he is under house arrest on arms-smuggling charges. His successor, Fernando de la Rua, a conservative Radical, presides over a weak and often divided government. Since March, Mr Cavallo has been back as economy minister—but this time minus his Midas touch. His tasks have been to boost confidence in order to stave off a debt default while also trying to coax a return to growth by improving “competitiveness”. He appears to have failed in both.

At first, he focused on “competitiveness”. He cut taxes on investment and tariffs on capital goods (raising those on consumer goods). He meddled with the currency board: for foreign trade, the peg was switched to one made up equally of dollars and euros, a gain of 4% for exporters. But that bright idea triggered fears of a devaluation. A run on the banks saw $8 billion leave in July and August. Having run out of credit, Mr Cavallo switched tactics. He persuaded Argentina's Congress to approve a plan to balance the budget this year, partly through cuts of up to 13% in public-sector salaries and pensions. The government achieved balance in the third quarter, despite plunging tax revenues—but at unsustainable cost.

The bank run triggered a credit crunch. Banks called in loans, and firms delayed payments to suppliers. In the three months to September, GDP is thought to have shrunk by anything between 6% and 12% at an annualised rate (see chart). The political price was high, too. Mr de la Rua's disintegrating Alliance coalition suffered a heavy defeat in a mid-term election last month. His Radicals now have barely more than a quarter of the seats in the lower house of Congress; Frepaso, its junior coalition partner, walked away from the government when its last remaining minister resigned last week.



Mr de la Rua is sticking to his guns. “The election results, given the measures I've taken, are excellent,” he says. He rejects calls for “a change in the model”. “There'll be no default and no devaluation. Our effort is to reactivate the internal market, which needs lower interest rates. It could be necessary to lower the costs of the debt, but we will comply with our obligations”.

Most Argentines still cling to the currency board, as if it expressed their lingering self-image of being a far-flung corner of Europe. “Devaluation would be unimaginable chaos. It would be to lose fundamental values. We don't want to go back to aspiring to emerging-market wages,” says Chrystian Colombo, Mr de la Rua's cabinet chief. Many local economists agree. Devaluation and default would not be “quick fixes”, and might threaten the political institutions and Mr de la Rua's presidency, argues Vladimir Werning, of J.P.Morgan Chase, an investment bank.

Instead, to balance the budget in the face of falling revenue, the government is seeking yet more cuts. It has unilaterally withheld transfer payments to the provinces. In talks which have dragged on for a fortnight, ministers have yet to win the agreement of provincial governors for this.

Neither has the government persuaded local banks and pension funds (in all, locals hold perhaps half of the $132 billion public debt) to accept bonds paying less interest and with a three-year grace period in a “voluntary” debt swap. This week, Mr Cavallo talked of a wider debt swap involving international creditors. But the credit-rating agencies have warned that the terms of any such deal are likely to amount to default. And the IMF seemed unenthusiastic about backing it.

The government's immediate problem is that it faces interest payments of $1.4 billion this month. For all its stubborn determination to avoid both default and a change in its exchange-rate regime, the government's options, and perhaps even its life, are fast ebbing.

The bigger question is what went wrong in Argentina, for so long seen as a model reformer. There are two conventional answers. The first is to blame the loose fiscal policy of Mr Menem's second term, during which the public debt rose from 40% to 50% of GDP. Certainly, this meant that Mr de la Rua's government could not spend its way out of recession. A big fiscal squeeze has now happened, but to no immediate benefit.

The second is the currency board itself. However, exports have continued to rise, led by industries that have modernised, such as wine, chemicals and steel tubes. Falling prices mean that Argentina has, in effect, devalued (by about 18%) against the United States since 1996 (though not against the euro or

the *real*), according to Carlos Winograd, a deputy-minister of the economy. He argues that the high cost of capital is a bigger brake on competitiveness than the exchange rate.

The third, and most powerful argument, is that Argentina has faced a hail of blows from outside. These include weak prices for its agricultural commodities (as well as rich-world trade barriers against them), Brazil's devaluation and, above all, the drying up of capital flows to emerging markets since 1998.

The fourth factor is mismanagement by Mr de la Rua's government. It has been hesitant, and often at odds with itself. Mr Cavallo has aggravated the problems, making the mistake of meddling too much and explaining too little, imagining that his reputation was guarantee enough. In the end, given all the other factors stacked against Argentina, it wasn't.

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Brazil's Arab diaspora

Pillars of the community

Nov 1st 2001 | FOZ DO IGUACU
From The Economist print edition

AP

Terrorist sympathisers? Not us, say Brazil's Muslims

THE number of foreign tourists visiting the famous Iguaçu Falls, where Brazil adjoins Argentina and Paraguay, has halved since September 11th. For that, blame economic uncertainty and fear of flying—but also reports that the three countries' police, plus America's FBI, are scouring the area for supporters of Middle Eastern terrorist groups, supposedly lurking among a big Arab immigrant population.

Locals are indignant. Terrorist support groups “don't exist and never did,” insists Ali Said Rahal, president of the Islamic Centre in Foz do Iguaçu, the town on the Brazilian side of the falls. But while there is little firm evidence, there are good reasons for investigators to take a close look. The “triple border” has long been a centre of smuggling and money-laundering. Small-time *sacoleiros* (bag carriers) carry contraband cigarettes and fake watches across the bridge from Ciudad del Este, in Paraguay, to Brazil. Large-scale money launderers have routed billions of dollars through the area, say Brazilian prosecutors. Away from the cities, the long, sparsely-populated borders between the countries are difficult to police.

All this, plus a jumble of nationalities, among residents and tourists, makes an attractive hideout for outlaws. Lino Oviedo, Paraguay's former army chief and serial coup-plotter, was arrested in Foz last year, as was a representative of Colombia's FARC guerrillas. And there are trails to Middle Eastern terrorism. Mohamed Mokhles, who is accused of involvement in attacks on foreign tourists in Egypt (and is an alleged associate of Osama bin Laden), lived with his family in Foz in 1998. Arrested after entering Uruguay from Brazil, he is fighting extradition to Egypt. The mayor of Chui, Mohamad Kassem Jomaa, who helped Mr Mokhles's family after his arrest, has been questioned by the Uruguayan secret service. He denies terrorist links (and says he is not a Muslim). A Paraguayan prosecutor claims that a shop in Ciudad del Este is collecting money for Hizbullah. American officials say they have evidence of the presence of graduates of Middle Eastern terrorist-training camps, but decline to give details.

Still, the region's Muslims have a point when they complain that they are the target of unjustified suspicion because of as yet unproven allegations against a few individuals. Unlike in many European countries, South Americans of Arab descent (like Jews) tend to be businessmen and professionals who have assimilated and become pillars of the establishment.

Most South Americans of Arab descent derive from a wave of immigration a century ago, when both Christians and Muslims left the disintegrating Ottoman empire. Muslim associations reckon Brazil has 10m people of Arab descent, of whom about 1m are

Muslims.

Although today they are well integrated and suffer little discrimination, most Muslims are still discreet about their beliefs, according to Andre Gattaz, a historian at the University of Sao Paulo. Only 22,000 admitted to being Muslim in the 1991 census. Brazil has just 30 mosques; of the estimated 10,000 Muslims in the Foz area, only about 200 come to Friday prayers at its mosque, says Mr Rahal.

As President Fernando Henrique Cardoso pointed out last week, the successful integration of Brazil's Muslims argues against an inevitable “clash of civilisations”. Many Muslim leaders in Brazil, as elsewhere, condemned the September 11th terrorist attacks and held prayers for the victims. Mr Gattaz says, nevertheless, that many also think that America's heavy-handed foreign policy brought the attacks on itself. Rightly or wrongly, in that they are in tune with many other Latin Americans.

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Human rights in Mexico

Untouchable?

Nov 1st 2001 | MEXICO CITY
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A murder leads to calls for the government to clean up the army

AP

Can Fox calm the indignation?

MANY Mexicans suspect that someone close to the army murdered Digna Ochoa on October 19th. Ms Ochoa was a lawyer who until a year ago had worked at the Miguel Agustin Pro Juarez Human Rights Centre (known as Prodh) in Mexico city. Since the mid-1990s, after they had begun bringing cases against soldiers for human-rights abuses, she and others at the centre had received threats, followed by kidnappings and break-ins. She was killed by a single shot to the head. There were no fingerprints, but there was a threatening note left to Prodh's staff.

Many questions are unanswered. Who exactly did it? Why now, given that Ms Ochoa had left Prodh to work alone and had not, it is thought, made much progress in her cases recently? Will her killers ever be caught? And more broadly, after seven decades of rule by the Institutional Revolutionary Party (PRI) during which the armed forces were untouchable and human-rights abuses went unpunished, can President Vicente Fox, who took power less than a year ago, change things?

Mexico faces no obvious external threats, but in the past decade two internal ones have given the army a more important role. One is drug-trafficking. So corrupt were the police that soldiers, supposedly more disciplined, were brought in to fight the drug war. There have since been several embarrassing drug-corruption cases involving army generals. The second threat is guerrillas, such as the Zapatists, who have appeared since 1994. The armed forces have grown steadily, and now number 193,000.

The army and police crushed a previous guerrilla outbreak in the 1970s partly by forming an unofficial death-squad called the White Guards. When the threats against Prodh began, its director told the press that he believed ex-White Guards might be behind them. Two officers who had been members were arrested last year on drug-trafficking charges. Certainly, the unit's tactics of intimidation, kidnapping and murder have sometimes been copied in the current guerrilla conflict, as well as in attacks on activists such as Ms Ochoa.

Still, the timing of her murder is a mystery. Her most prominent clients were two ecologists imprisoned in the southern state of Guerrero. She helped bring charges of torture against the soldiers who had interrogated them. But that was in 1999, though the case has yet to come to trial. Moreover, since her murder, several other human-rights activists have received death threats. Among them is Sergio Aguayo, a prominent Mexican historian. He suspects that the murder and the threats may be an attempt by agents of the old order to add to the difficulties of Mr Fox's government, which is already grappling with economic recession and internal disputes. “It would not be surprising if some sectors of the old regime would look to destabilise the country under these conditions,” he says. “This may be a wider operation that didn't end with Digna Ochoa.”

All the more reason for the government to make sure that justice is seen to be done. Mr Fox has pledged his full support to Mexico city's attorney-general who is investigating the murder, including an unprecedented promise to let him see any army or federal police files that he needs. He has also promised new measures to protect human-rights activists.

But those activists still have their doubts. Many officials of the current government also worked under the PRI. Mr Fox promised to set up a truth commission to investigate the abuses of the old regime, but has

not done so. However, last month, the government formally turned over to the National Human Rights Commission, a quasi-official body, security files (but not those of the army) on nearly 500 people who disappeared in the 1970s.

Should the Ochoa case become a federal one, as it may do if soldiers are accused, it will land on the desk of Mr Fox's attorney-general, Rafael Macedo de la Concha. When Prodh and Ms Ochoa brought their cases against soldiers—none of which has yet produced a conviction—General Macedo was the chief military prosecutor. Perhaps it is time for the civilians to take charge.

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Australia's election

Third time lucky?

Nov 1st 2001 | SYDNEY
From The Economist print edition

Reuters

Can John Howard win another election victory?

Get article background

AS AUSTRALIANS prepare to vote in a general election on November 10th, the political mood has rarely seemed harder to read. A few months ago it was easy: opinion polls and commentators alike were sure that John Howard, the prime minister of the conservative Liberal-National coalition that has governed since 1996, would need a miracle to have any chance of winning a third term.

Two miracles duly came along. The arrival of the *Tampa*, a container vessel that had rescued hundreds of people from their leaking boat, allowed Mr Howard to embark on a war against mainly Afghan and Iraqi asylum-seekers heading for Australia from neighbouring Indonesia. Then came the terrorist attacks in America on September 11th, heightening the sense of insecurity many Australians were feeling closer to home. Mr Howard's opinion-poll ratings soared above those of the opposition Labor Party, and he has not stopped playing the security card since. “We will decide, and nobody else, who comes to this country,” he declared to thunderous party applause when he launched his campaign on October 28th. As the campaign entered its final week, opinion polls indicated a partial recovery in Labor's fortunes. It could even be enough to prevent a third Howard victory. But if not, the election outcome could see Australia taking a journey back to its more isolated past.

A retreat from that past had gathered steam when Labor ruled for 13 years up to 1996. Under Bob Hawke and Paul Keating, its successive leaders, Labor dismantled much of the protection surrounding Australia's economy and engaged more closely with Asia. Mr Howard then took economic liberalisation much further by embarking on a badly-needed reform of the tax system, including the introduction of a goods and services tax (GST), in return for lower income and corporate tax rates. Almost 20 years of reform by both sides of politics have paid dividends: as the economies of Japan and some of Australia's other main trading partners teeter, Australia's, at least for now, remains robust.

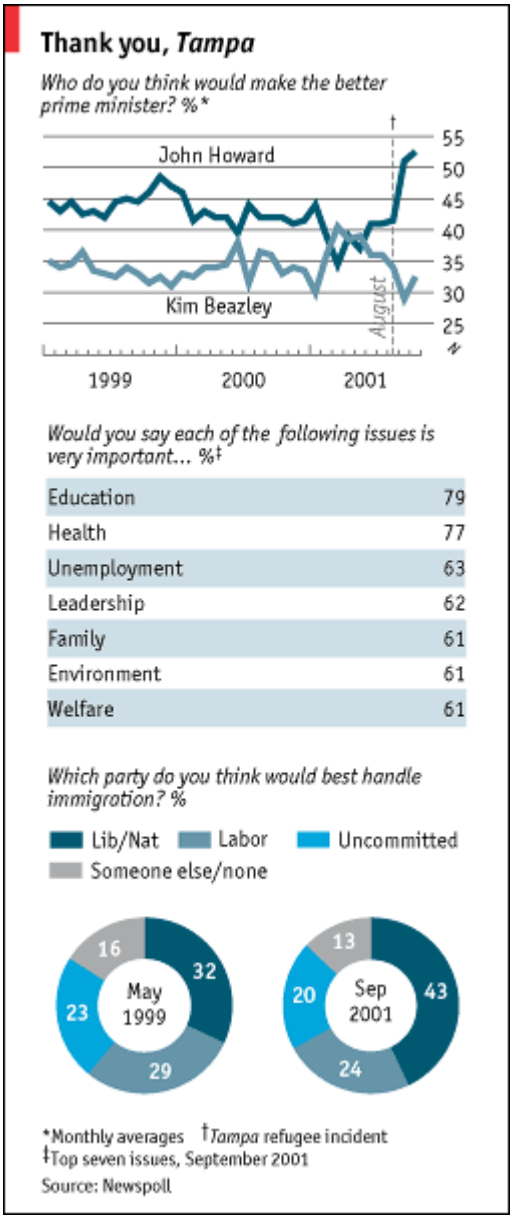
Mr Howard, though, was never comfortable with the other side of Labor's formula, which included promoting Australia as an open, multicultural society, reconciling past wrongs with its indigenous people, becoming more Asian in focus and ending the last constitutional links with Britain by becoming a republic. He has wiped all these issues from the political agenda. At 62, Mr Howard happily boasts he is the most conservative leader the conservative Liberal Party has ever had. Rather than denouncing the emergence four years ago of the anti-immigration, isolationist

One Nation party, led by Pauline Hanson, a former Liberal Party member, Mr Howard has been preoccupied with how he could win over the disgruntled voters to whom she appealed.

He found an answer in late August, when he sent the Australian navy and armed soldiers to head off asylum-seekers approaching Australia's shores, declaring that none would be allowed to land, even for processing. The government has since set up processing centres in Nauru and Papua New Guinea, and is approaching the tinier Pacific micro-states of Palau and Kiribati to set up more. On almost every front, the policy has been a mess. It has not deterred more boats from arriving, as Mr Howard said it would. It has cost about A$150m ($75m) to implement. And Megawati Sukarnoputri, Indonesia's president, has ignored Mr Howard's approach for talks on the issue. But it did appeal to a mounting sense among Australians that they were being invaded by people whom Mr Howard and his ministers painted as a threat to national cohesion. And it has helped to neutralise Mrs Hanson politically; she has complained that Mr Howard has “stolen” her policies.

Kim Beazley, the 52-year-old Labor leader, has felt obliged to support Mr Howard's stand on asylum-seekers and on sending Australian forces to join the war on terrorism. He has tried to shift the focus to domestic issues—which Australians say they care about far more than immigration—by promising to spend more on schools, universities and hospitals and to reform the GST. But many voters seem to see little to choose between the two main parties. The strongest critics of Mr Howard have come from elsewhere, including the *Australian*, an influential newspaper owned by Rupert Murdoch, which has attacked the government on asylum-seekers and education.

Whichever side wins, it will have a hard time implementing its agenda. A budget surplus of A$1.5 billion last May has been whittled away by two-thirds since Mr Howard went on a spending spree in a bid to arrest his government's plunging popularity earlier this year. Mr Beazley came close to unseating Mr Howard at the last election in 1998. This time Labor needs a swing of just 0.8%, for a gain of six seats in the 150-seat House of Representatives, to win. If Mr Beazley pulls off his own miracle, his biggest challenge could be to restore a sense of openness and tolerance that seems to have gone missing in Australia during the Howard years.



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Singapore

Why bother voting?

Nov 1st 2001
From The Economist print edition

The government is almost unopposed

AP

Goh, Goh, Goh

THE election, to be held on November 3rd, is as predictable as Australia's is close-run. Only 29 opposition candidates are standing for Singapore's 84-seat parliament, meaning that the ruling People's Action Party (PAP) had won its ninth successive election victory even before the polls opened. The only uncertainty is whether the opposition will win any seats at all.

It faces plenty of obstacles. Thanks to Singapore's first-past-the-post system, the opposition has never translated its roughly one-third of the votes into more than four seats, and at the last election, in 1997, won just two out of 83 seats.

But even so, this time the government has been leaving nothing to chance. The election was called on October 18th, and only nine days for campaigning were allowed. The government had revealed new constituency boundaries only the day before, further wrong-footing the opposition candidates. And a steep deposit of S$13,000 ($7,100) put many off running. The opposition's chances were further dented by the PAP's habit of spreading government largesse before the poll. Just before calling the election, the government unveiled a package of S$11.3 billion of tax cuts, extra spending and direct handouts.

But the PAP does not have everything its own way. Singapore is in the throes of its worst recession since independence. After growing by an average of 8.7% a year since 1965, the economy is set to shrink by 3% this year, the victim of a plunge in exports. Worse is to come: Goh Chok Tong, the prime minister, says lay-offs may exceed 20,000 this year, in a country of just 4m people. No wonder the government decided to hold the poll ten months ahead of schedule, before the recession really begins to bite.

The PAP says it is the only party with the experience to guide Singapore through such uncertain times. The opposition has tried to capitalise on job losses by complaining about the country's many foreign workers. But most voters seem unmoved. Even Mr Goh has complained about the feebleness of the opposition. He has mused about deputing some PAP members of parliament to act as a sort of simulated opposition, to keep the government on its toes. Perhaps, though, there is a better way. How about allocating seats in proportion to votes cast? Not a hope.

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Japanese politics

Shabby dealings

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From The Economist print edition

A fiasco over electoral reform

IT WAS a fishy business, from start to finish. On October 24th, the three partners in Japan's coalition government announced that they planned modifications to the lower-house electoral system. No one had been expecting changes to the present mix of single-seat constituencies and proportional representation, introduced in 1994 to cure the ills bedevilling Japanese politics. Nor was there any public pressure for the politicians to act. With this in mind, perhaps, the proposed alterations were small and poorly publicised. So poorly, in fact, that no one had an official explanation of why the changes were needed in the first place.

Unofficially, of course, the reason was obvious. Since the ending of multi-seat constituencies, old-fashioned Japanese machine politics have been in decline. Under the old multi-seat system, party placemen could be sneaked into parliament with a fraction of the popular vote. By contrast, securing success in single-seat constituencies involves a risky and more demanding appeal to the majority.

Big parties, such as the opposition Democrats and the ruling Liberal Democratic Party (LDP), have struggled, though with mixed success, to adapt. But New Komeito, one of the LDP's two junior coalition partners, finds it cannot change. Beyond its highly-organised vote, the 8m households that count themselves members of Soka Gakkai, the lay Buddhist movement that backs the party, New Komeito has zero appeal. On the contrary, most non-believers are thoroughly hostile to the Buddhists. New Komeito badly needs the multi-seat system to be revived. So when, despite its pacifist leanings, New Komeito supported legal changes, finally passed this week, that will allow Japan to contribute more to America's fight against terrorism, many suspected that there would be a pay-off. A promise on electoral counter-reform would be an eminently suitable price.

Strangely, no one seemed to have been overly bothered about how shabby all this would look. The proposed changes were to affect just 14 constituencies, most of them in or around Tokyo. There was no explanation why these particular constituencies would revert to the multi-seat system, while the rest of Japan would continue to use the 1994 single-seat principle. With no convincing alternative explanation, the public quickly came to its own conclusions: the list was New Komeito's, carefully drawn up in the light of its recent electoral failures. After a weekend of outrage, the reforms are now on ice for a year.

What morals from this tale? It may well be that the wily old men who run the LDP never entertained the idea of actually pushing through any changes. After all, they can now go back to New Komeito and say that they did their best. But there has been on display abundant political stupidity of another kind. When he took office in April, Junichiro Koizumi rescued the LDP from a cynical and despairing electorate. The fragile trust the prime minister has since managed to build rests on his direct appeal to the voters, and an attention to how things look that has been lacking in the past. Unfortunately, it seems that the rest of his party is not yet on message.

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China

The question of Hu

Nov 1st 2001 | BEIJING
From The Economist print edition

An unknown leader meets the world

Reuters

China's next First Couple see the sights

RARELY in the history of political succession in communist China has a prospective top leader been such an enigma to the outside world as Vice-President Hu Jintao. The only other example is Hua Guofeng, the obscure deputy who succeeded Mao Zedong after the latter's death and who was toppled within three years. At a time of giddying economic and social change, such uncertainty about the new helmsman is hardly reassuring.

President Jiang Zemin, who will go into semi- or full retirement by 2003, has apparently decided that it is now time to let foreigners get to know the 58-year-old Mr Hu a little better. The vice-president is on a two-week tour that has already taken him to Russia and Britain and will include France, Germany and Spain. This is his first trip to any of these countries since he was promoted to the Politburo in 1992 and began his long apprenticeship as Mr Jiang's heir apparent. Mr Hu's only other foreign visits have been to Asia and Africa.

Foreign dignitaries sometimes meet Mr Hu in Beijing, but they come away little the wiser about the kind of man he is. He appears confident. He speaks without notes. He has an extraordinary memory. But he reveals nothing about how he would lead China or change it. His curriculum vitae provides few clues either. At university he studied hydraulic engineering, which makes him a technocrat like President Jiang. In the late 1980s he served in Guizhou as China's youngest provincial governor. From 1988 to 1992 he was party chief of Tibet, where he presided over the bloody crushing of anti-Beijing protests. But despite the demonstrations by pro-Tibetan activists during his visit to Britain, there is little evidence to suggest that Mr Hu was anything more than a loyal executioner of the Politburo's orders.

Diplomats have no idea what Mr Hu's foreign-policy preferences are. He does not have the experience of study in Russia that has given Mr Jiang and many of his generation an enduring fondness for China's neighbour. He has never been to America. He has, however, spent much of his career in the Communist Youth League and as head of the Communist Party School. Both of these institutions harbour liberal thinkers who are relatively sympathetic towards western values. Even the succession process remains shrouded in mystery. Mr Hu may well become party leader next year and president in 2003. But it is unclear whether Mr Jiang will hand over his most crucial job, that of military chief.

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The Koreas

Dollars, please

Nov 1st 2001 | SEOUL
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Money is the key to the North's diplomacy

THE worldwide fight against terrorism has not gone unnoticed in North Korea. It has provided the always awkward-minded regime with an excuse to tantalise South Korea. All contacts with the South have been put on hold. The North has indefinitely postponed another round of meetings between selected families separated since the Korean war of 1950-53. The meetings had been due to take place in mid-October. North Korea claimed, not very convincingly, that the South's security arrangements since the attacks on the United States on September 11th were the reason for disappointing the separated families. It is increasingly hostile to President George Bush, at a time when he has said he would like to reopen talks with North Korea. Its strong army, it says, will mercilessly punish anyone who threatens its sovereignty, though an American attack on the North is just about the remotest of possibilities at the moment.

All this may indicate a power struggle within the communist regime, with the conservative military chiefs taking the upper hand. The North's army of about 1m is the power base of its leader Kim Jong Il, but an official at South Korea's reunification ministry offers the view that the top soldiers, most of them blind to the outside world, are also perhaps Mr Kim's worst enemy in his efforts to turn around the economy by opening up the country.

The army and Mr Kim may feel that neither can survive without support from the other. Nonetheless, for a few months after the summit of the two Koreas in June last year, Mr Kim and a handful of his supporters from the communist party (among them the senior party member responsible for relations with the South, Kim Yong Sun, who has since been sidelined) seemed to have attempted to open up the country, however slightly, by introducing an element of capitalism—notably, bringing farmers' markets to the cities. The military leaders are wary of capitalism and what they consider its bad influence. Why on that occasion did they not oppose the move? The North's dire famine may be one reason. They may also have been calmed by a promise by Hyundai, a South Korean conglomerate, to pay nearly $1 billion, in instalments, to the North for permission to take southerners on visits to Mount Kumgang to admire the view.

Hyundai has not made payments since February, presumably because it cannot afford them. The North is thus insisting on a South Korean government guarantee for all outstanding payments, before pushing forward with any more projects with the South. It also wants all inter-Korean talks to take place on Mount Kumgang, in premises poorly equipped for a conference. The South has agreed to the site, but, unless the money is forthcoming, any meeting is unlikely to be productive.

Indeed, money matters in dealing with North Korea. It is no secret that the North wants the United States to pay it $1 billion a year in return for scrapping its missile-export programme. So long as the Americans refuse, their relations with the North are likely to remain icy. Nevertheless, the impoverished North believes that, probably through ties with the South, it will eventually get some of America's boundless wealth and save itself from collapse.

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India and Pakistan

Degrees of punishment

Nov 1st 2001 | JAMMU
From The Economist print edition

The battle that never ceases

Reuters

The fog of war

WHEN India and Pakistan exchange warlike rhetoric, as they have been doing lately, the place to take the real temperature of their hostility is their border in the disputed state of Jammu and Kashmir, the so-called “line of control” that has existed since 1972. Although there has been no major military flare-up on the border, there is clearly a new determination by India to punish Pakistan whenever the rate of Pakistani gunfire increases, or there is an attempt to send in a batch of Pakistani-trained militants.

This tougher approach became evident on October 15th when India fired on Pakistani army posts at a time when Colin Powell, the American secretary of state, was visiting the two countries. The Indian army called that exercise “punitive action”, a term that the external-affairs ministry quickly corrected so as to avoid American condemnation. But the Indian army stuck to its statement.

Lieutenant-General J.B.S. Yadava, the Jammu corps commander, said in an interview that there is a new policy to take firmer punitive action locally. His men have the right to take such action “because Pakistan is supporting and abetting terrorism”. The general said that India's action on October 15th was in response to heavy Pakistani firing that provided cover for 15 militants crossing the border near the mountain town of Rajouri, as well as the sabotage of an electricity transformer station and firing on Indian villages near the southern Jammu town of Akhnoor.

General Yadava said that Pakistani “activity” had been slowed down, though there was usually firing every day somewhere on the border. There was no plan at present for “cross-border hot pursuit”, or to respond to Pakistani fire with artillery rather than the small arms currently used. Government ministers have toyed publicly with the idea of hot pursuit and some army officers say privately that they would like to lead troops across the border to attack terrorists' training camps which, they say, are supported by Pakistan's Inter-Services Intelligence agency.

However, such an attack, if it were to be effective, would probably have to take place some 20-40km (12-24 miles) into Pakistani territory and would have to be sustained. But internationally it would be interpreted as a virtual declaration of war. The United States is already nervous about the hostility between the two nuclear powers, and any escalation would be instantly condemned.

India claims that since Pakistan's coup in 1999 its leader, General Pervez Musharraf, has been trying to extend Kashmir's 12-year-old insurgency into the Jammu region. Some 800 militants have been killed in the past ten months, about the same number as in the whole of last year and more than double the 1999 total. Of the 800, India says that about 500 are foreigners, mostly Pakistanis. Generally they are heading for the Kashmir Valley, though an increasing number of attacks have been in the Jammu area. Very few prisoners are taken. India says most infiltrators fight until they are killed, and claims they are drugged with marijuana and opium. The Indian authorities display automatic rifles, grenades and radio sets

recovered from the bodies, along with identity cards bearing the names of Pakistan-based terrorist organisations.

A serious escalation of hostilities from India's side is thought to be unlikely, unless—or until—there is another atrocity such as the suicide car-bomb attack that killed 38 people on October 1st. If that happened, politicians would come under intense domestic pressure to allow the army to move on from measured “punitive action” to “hot pursuit”. Reflecting this risk, the commander of a United Nations' military observer group, which has operated on both sides of the conflict since 1949, gave warning this week of a probable increase in tension.

India has been refusing to resume peace talks with Pakistan until it stops supporting the insurgency. But it is thinking of softening this line. It remains possible that the Indian prime minister, Atal Behari Vajpayee, will meet General Musharraf, now the self-appointed president of Pakistan, in New York at the postponed UN General Assembly when it is held later this month. Both leaders are to have separate meetings with President George Bush. Each will justify his country's position. In Jammu, though, the firing will continue, some days light, some days heavy.

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Christians in the Middle East

Testing times for a worried minority

Nov 1st 2001 | CAIRO
From The Economist print edition

Reuters

Middle Eastern Christians are under pressure to say where their loyalties lie

LIKE minorities everywhere, Christians in the Muslim world have learned to live with ambiguity. However nationalist they may be, somewhere there lurks a fear that their loyalties are suspect. These fears, whether real or imagined, have grown in the wake of September 11th, just as they have for Muslims living in the West.

Christian outrage at the attacks on America was louder than their Muslim neighbours', while Christian concern over the counter-attack on Afghanistan has been more muted. Most Middle Eastern Christians share the belief that American policy in the region helped stoke the fire of fanaticism. But they are also more pointedly critical of their own societies for failing to extinguish those flames long ago. For years, and with growing discomfort, they have watched the flames spread, and now see them moving dangerously close.

The massacre of at least 16 people in a Pakistani church, in apparent retaliation for “Christian” America's bombing of Afghanistan, was a dramatic realisation of such fears. Yet this act, and other communal clashes, remain exceptions to the generally tolerant rule. Unlike most Muslims in the West, the vast majority of Christians in Islamic countries are natives, not immigrants. This binds them to their societies by race, language and culture.

Feeling threatened
Christian populations, selected countries

	Christians, m	As % of total population
Egypt	5.5	8.0
Pakistan	3.0	2.0
Syria	1.7	10.0
Lebanon	0.9	30.0
Iraq	0.7	3.0
Jordan	0.1	2.0
Iran	0.1	0.1
Israel	0.1	10.0*
Palestine	0.04	2.0

Sources: US Department of State; CIA Factbook
*Of Israeli Arabs

So long as secular ideologies dominated the region's politics, being Christian proved little hindrance to advancement. Prominent leaders of many anti-colonial struggles were Christian, as were the founders of the Baath Party that rules Iraq and Syria, and of groups such as the Popular Front for the Liberation of Palestine. The role of Christians in the arts and business was also disproportionate to numbers.

Two decades of growing influence by Islamist-oriented movements have altered this picture. Outright persecution remains rare. In Iran, for instance, Christians hold reserved seats in parliament, where they are sworn into office on the Bible. By tradition, Egypt's president uses his right to appoint members of parliament to top up Christian

representation. By law, Lebanon's president is always a Christian. Pakistan's endemic sectarian strife has more often been directed at the Ahmadi and Shia Muslim minorities than at Christians.

Yet the strain of being different, in a tide of sentiment that is replacing national identities with religious ones, has begun to tell. In some cases this has been expressed in violence. Coptic Christians in Egypt, for example, have occasionally been singled out for attack by militant Islamists: 20 Coptic villagers died last year in what amounted to a pogrom, after a dispute in a shop. In Lebanon, several churches and Christian properties have been firebombed in recent months, rousing scary memories of the 16-year civil war that was partly fought on confessional lines.

More commonly, however, Christian discomfort has been expressed demographically. Better education and stronger ties with the West have long prompted Arab Christians to emigrate in larger numbers than Muslims. The trend has accelerated lately, with striking results. Over the past 50 years, Lebanon's secure Christian majority has become a fast-dwindling minority. In the Palestinian territories, the proportion of Christians has fallen from 15% to under 2%: even Bethlehem and Nazareth now have Muslim majorities. Iraq may have lost half its Christians since the Gulf war to clandestine emigration.

Egypt's vibrant Coptic church is the largest in the Muslim world, yet it has expanded abroad while treading water at home. Its North American archdiocese had 14 priests in 1975. Today there are 145. Among its news of sundry church affairs, the main Coptic weekly in Cairo carries an advertisement for migration to Canada: “The leading country for human rights and a secure future for your children.”

But there is now a new danger of being mistakenly victimised by racist vigilantes. A Californian grocer, shot dead by unknown assailants in what is thought to have been a revenge attack on Arabs last month, happened to be an Egyptian Copt. That irony is particularly bitter, since Middle Eastern Christians tend to be much more pro-American than Muslims. But, in recent years, their enthusiasm has waned a little: Palestinian and Iraqi Christians feel themselves as much the victims of American policy as their Muslim neighbours.

The region's churches have made a point of matching Muslim preachers in condemning Israel. Despite Egypt's peace with Israel, for example, the Coptic pope has maintained a ban on pilgrimage to the Holy Land until such time as the Israeli occupation ends. The Middle Eastern Council of Churches, an umbrella group, laments that America's campaign will be seen as a religious war, with Islam as the target. Christian minorities everywhere in the region are under pressure to make it crystal clear where their loyalties lie.

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Ramadan and the war

Identifying with one's faith

Nov 1st 2001 | CAIRO
From The Economist print edition

Wars do not stop for Ramadan, but it is a time when Muslims feel deeply Muslim

EPA

Fasting and celebrating

THIS year, Ramadan begins in mid-November. Because it depends on sighting the new moon, the precise start of the Muslim fasting month cannot be determined in advance. Similarly, nobody can predict, with precision, the response of the world's billion-plus Muslims if American bombs continue to fall on Afghanistan throughout the holy month. It will depend, then as now, on whether individual Muslims feel America is hunting outlaws in a faraway land, or is waging war against their brothers, and perhaps their faith.

Some of America's allies have tentatively called for the bombing to stop in respect for religious feelings. Others have noted that although Ramadan is traditionally a time of truce and amnesty, serious wars have raged through it nonetheless. Islamic doctrine, recognising this unfortunate propensity, exempts active soldiers from the dawn-to-dusk fast.

Iran and Iraq blasted away at each other through eight bloody Ramadans in the 1980s. Egyptians still refer to their storming of the Suez canal in 1973 as the Ramadan war. There have been no pauses for fasting in Afghanistan's own 23-year-long cycle of violence, either.

Even so, a sustained bombardment would represent the first time in long memory that a non-Muslim power has pounded a feeble Muslim opponent before the world's cameras, during a season when Muslims celebrate their devotion and identity with special intensity. In most Muslim countries, compliance with the fast is all but universal. Night turns to day. Thoughts turn to charity. And in the hours after sunset, families and friends gather in front of their television sets.

In the old days, before the ubiquity of television, tales of distant fighting would have raised little fuss. Nowadays, the pictures of wounded children, hungry refugees and ruined homes carry instant impact. The proliferation of such images in recent years—from Bosnia, Palestine and elsewhere, and now Afghanistan—has combined with a rising tide of pan-Islamic rhetoric to forge an unprecedented sense of identity with Muslim victims everywhere.

America, says Osama Baz, a senior adviser to Egypt's president, needs to cultivate, not alienate Muslims. With passions already inflamed, warring on through Ramadan may not greatly increase the current store of Muslim hostility to America. Yet even a small gesture in the spirit of Ramadan charity, such as making special provision for emergency aid into Afghanistan, might help persuade doubters that America wants justice rather than revenge.

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Iranian protest

Football hooligans they aren't

Nov 1st 2001 | TEHRAN
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Joblessness and frustration are bringing young Iranians out on the streets

ON ONE thing, at least, politicians from both sides of Iran's conservative-reformist divide agree: the violence that has been flaring in response to the fluctuating fortunes of the national football team, as it struggles to qualify for the World Cup, has little to do with sport. Both Morteza Nabavi, a senior member of the conservative establishment, and Muhammad Reza Khatami, the deputy speaker of the reform-minded parliament and President Muhammad Khatami's younger brother, say that unemployment and poverty had a lot to do with bringing angry young people out on to the streets of Tehran and three or four other cities.

After that, they disagree. Mr Nabavi thinks that exploitation by “counter-revolutionaries” stirred emotions. Mr Khatami, on the other hand, blames the “indifference” of the establishment to the general desire for reform—which was expressed most recently in his brother's landslide victory at June's presidential election—and also the state's “excessive interference in people's private lives”.

The particular counter-revolutionary Mr Nabavi was alluding to is Reza Pahlavi, the ambitious son of the late shah, who now lives in exile in America. Before Iran's defeat in a match on October 21st, and four days later when it won a play-off tie, he and his supporters used television and radio stations based in Los Angeles to call on Iranians to take to the streets.

But this does not mean that the protesters were all, or even mostly, monarchists. The majority of them had voted for Mr Khatami, and share his frustration at the hardline judiciary's contempt for reform. The president expressed this frustration in his recent attack on the apparently unconstitutional jail sentences handed out to two reformist deputies for speeches made in parliament. And, as the younger Mr Khatami hinted, many of the protesters were basically showing their opposition to Iran's puritanical social laws. In the better-heeled parts of Tehran, miscreants of opposite sexes held hands, or danced. The protests were part street-party, part riot; they constituted a small but important shout of defiance.

Although the demonstrators directed their more impolite slogans at Ayatollah Ali Khamenei, the supreme leader, their anger has helped to erode the credibility of Iran's whole regime, not just the conservative bit of it. The sight, in Tehran and elsewhere, of baton-wielding riot police and plain-clothes religious militiamen beating up unarmed youths had its impact on the thousands of people, many of them families, who had gathered to watch. More than 1,000 young Iranians were arrested around the country, and many of them have not been released. Their families often do not know where they are being kept, and witnesses have described nasty beatings inside police stations.

The state might comfortably disregard such unfocused discontent, if only Iranians were more prosperous. They are not. According to the government's own figures, 40% of Iranians are living in “relative or absolute poverty”. Over the course of the year that ended last March, some 220,000 educated and middle-class Iranians emigrated to the West. The president has admitted that jobs do not exist for 42% of the 2m or so Iranians who will have entered the workforce during the year that ends next March. Indeed, many of the young protesters have already had a taste of exclusion; of the 1.5m school-leavers who sat university exams this summer, the system had room for a mere 150,000.

According to the government's own figures, 40% of Iranians are living in “relative or absolute poverty”

Mr Khatami's re-election was thought to represent a last chance for Iran to evolve peacefully. Since then, however, the conservatives have shown no signs of bowing to the inevitable. Their response to the street demonstrations has been to set about confiscating the (illegal) satellite dishes that enable people to

relieve the tedium of state television by watching, say, Mr Pahlavi or pre-revolutionary pop-groups. The reformists have promised to end the ban on dishes. But it is likely that any such legislation will be brusquely shot down by the Council of Guardians, the conservative monitoring body that acts as an upper house.

This, after all, has been the futile pattern of Iranian politics since the reformists captured parliament 18 months ago. It is a pattern that has paralysed the changes that most Iranians want—and which they will not endlessly or patiently wait for.

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South African foreign policy

Plunging in at the deep end

Nov 1st 2001 | JOHANNESBURG
From The Economist print edition

AP

Why South Africa is sending 1,400 soldiers to Burundi

FEW would banish their worst enemy to Burundi, a country so violent and unpredictable that its own political leaders often prefer to live elsewhere. But on Monday the first soldiers of a two-battalion South African “protection force” were in the streets of the capital, Bujumbura, sharing jokes with civilian passers-by.

The soldiers, sent there because of Nelson Mandela's toiling to mediate an agreement between the 19 groups involved in Burundi's eight-year civil war, have the initial job of keeping the capital stable, and guarding local politicians when they return home. Mr Mandela managed to squeeze out a peace accord in July. But the deal is desperately fragile, with the principal rebels saying they do not feel bound by it. So South Africa's former president asked his own country to push things forward by providing 1,400 protective soldiers.

The accord spells out a power-sharing scheme between the ethnic Hutu majority and the elite Tutsi minority. This arrangement began on November 1st, with President Pierre Buyoya, a Tutsi who seized power in a coup in 1996, leading a new interim government for the next 18 months. He will then make way for a Hutu leader, probably his deputy, to serve a similar term.

Over the next few months, the South Africans are supposed to train local soldiers to take over as bodyguards, and then leave. The possibilities of things going wrong are vast. The provisions of the deal may well not be observed; massacres are all too common in Burundi. The troops will be particularly vulnerable when they venture into the countryside: a smaller contingent sent by the Organisation of African Unity (OAU) in 1994 to do a similar job cowered uselessly in Bujumbura.

This week Tutsi extremists, who accuse some of the returning Hutu leaders of genocide, called on people to fight soldiers who “don't speak our language” and who threaten “our independence”. The force has no specific United Nations mandate and, partly because of this, the European Union this week postponed a decision on financing it. No other African country is providing military support, although Nigeria, Ghana and Senegal may do so later.

Why is South Africa taking so bold and solitary a step? Three years ago it learnt a sharp lesson when it carried out a bungled intervention in tiny Lesotho. But Mr Mandela clearly wanted action. So, and this could be more important, did his successor, Thabo Mbeki, who has come round to the idea of a more active foreign policy.

Six months ago, Mr Mbeki sent 100 soldiers to Congo to serve with UN monitors. Other South Africans watch the border between Ethiopia and Eritrea. The government is irritated by the charge that it does nothing to end wars in Africa, especially as Mr Mbeki's Millennium Africa Renewal Plan (MAP) advocates African solutions for African conflicts.

Until recently, says the deputy foreign minister, Aziz Pahad, the country worried lest the rest of Africa resent South Africa throwing its weight around. But that phase is past: South Africa, which has nearly 40% of sub-Saharan Africa's GDP, has most to lose if the region cannot find ways to extinguish its wars. “We have less fear of being seen as a big brother,” says Mr Pahad. One sign of this is the controversial decision to spend $5 billion refitting the armed forces with new submarines and fighter jets.

The government, angered by Zimbabwean “war veterans” threatening South African companies earlier this year, has begun to be less timid in confronting Robert Mugabe. Mr Mbeki has, indeed, admitted the failure of quiet diplomacy. At a recent meeting of southern African leaders in Harare, South Africa's president harangued Zimbabwe's for his destructive policies. Mr Mugabe has been removed as head of a regional group's defence committee. Small moves, perhaps, but a break in solidarity between African leaders is rare.

South Africa seems to be seeing itself more clearly as Africa's leader. At an OAU meeting in July, Mr Mbeki faced down his rival, Libya's Muammar Qaddafi, who had drafted a statement backing Zimbabwe. The government routinely leads the way in free-trade talks with Europe and America, and expects a visit by George Bush next year. It is opening new diplomatic missions as South African companies expand into mining, telecoms, retail and other businesses across Africa. For example, Eskom, its power company, now operates in 27 African countries.

The next six months will test the new policy as elections in Zambia and Zimbabwe raise tensions. South Africa, together with America, helped to dissuade Zambia's president from seeking an unconstitutional third term, and it may be called upon for similar services elsewhere. And if the situation in Zimbabwe worsens ahead of the presidential election that has to be held by the end of March, South Africa will come under strong pressure to act robustly.

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Nigeria's army

Military terror tactics

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From The Economist print edition

Nigeria's army is looking increasingly out of control

AP

Special rules of engagement

LATE in the evening of October 22nd, Nigerian soldiers drove into seven villages in Benue, a state in central Nigeria, and called the local men together for what they said would be “peace” meetings. Instead of talking, the soldiers opened fire. Some of the villagers' bodies were mutilated, some set on fire, others left for vultures to peck. For three days, the soldiers ran wild, blowing up houses, burning shops, even shooting some of the women and children who fled before them.

The death toll is unknown, but was certainly more than 300. In one village alone, local officials say that 136 people were slain. Among the more prominent victims were three relatives of a former army chief of staff, Victor Malu, whose house was also destroyed.

The soldiers were apparently after revenge. The army had been sent into the area to quell one of the country's many ethnic squabbles: fighting between the Tiv and Jukun tribes. Tribesmen had earlier killed 19 soldiers, leaving their mangled bodies lying in the dirt. Instead of trying to catch the murderers, the army appears to have launched indiscriminate reprisals—precisely the sort of act they were deployed to Benue to prevent.

The reaction of Nigeria's president, Olusegun Obasanjo, has enraged many Nigerians. He took three days to order the army out of the area. Even then, when the officers in charge declined to leave, he let them stay. At the weekend, on national television, Mr Obasanjo suggested that the soldiers had acted in self-defence.

Nigeria's parliament has promised to investigate the killings but, judging by the past, the officers responsible are unlikely to be brought to justice. In November 1999, after 12 policemen were killed in Odi, in the Niger Delta, Mr Obasanjo sent in tanks and troops to restore order. Instead of doing so, the soldiers massacred hundreds of people and smashed up the entire town. Mr Obasanjo described this as “regrettable” but refused, on a visit to Odi earlier this year, to apologise or even to help rebuild a few of the town's shattered buildings. Instead, the army commander in charge of the operation was promoted.

How to explain the president's behaviour? He is not just another heartless Nigerian military dictator. Well, he was once a military ruler, in the 1970s, but not a particularly bad one. And these days he is a civilian. What is more, since his election as president in 1999, he has been hailed as one of Africa's shining democrats. So why is he letting the army slaughter civilians with impunity?

It could be that he feels too weak to control it. Since independence, the Nigerian army has mounted a successful coup about once every five or six years, so no incumbent ever feels truly secure. Or perhaps Mr Obasanjo is not sufficiently alive to the possible twists and turns of army infighting. The people blamed for killing those 19 soldiers were Tivs, who have been quarrelling for years with the neighbouring Jukuns over land. Mr Malu, whose home was destroyed, is a Tiv. The defence minister who sacked him, Theophilus Danjuma, is a Jukun.

It is suspected that the massacre was ordered by someone relatively senior. Mr Malu certainly thinks so. Given sufficient political will, the guilty would not be difficult to trace. But will they be punished? Mr Obasanjo was due to visit Washington on November 2nd to express his support for America's war on

terrorism. Perhaps his hosts will chide him into curbing his own army's terror tactics.

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Somalia's government and warlords

A patchwork of fiefs

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Somalia's parliament has voted out the government. So what?

BEST known for having no government to speak of, Somalia lost what it had this week. On October 28th, the prime minister, Ali Khalif Galaid, lost a vote of no-confidence, which has given him and his 84-member cabinet a month's notice to step down.

His transitional government, which was elected last year at a conference of businessmen, academics and former officials, is recognised by the United Nations, but not by many Somalis. It controls half of Mogadishu and a short strip of coastline. Southern and central Somalia is a patchwork of fiefs. The north has broken away into two separate entities: Somaliland and Puntland.

The parliament which voted Mr Galaid out, by 141 votes to 29, meets in a former police-training college. Its old building is now in the possession of Hussein Mohamed Farah Aideed, a warlord who does not recognise the government, though he drives, with his artillery, unmolested through the capital's rubble-strewn streets.

Somalia's “opposition” consists mainly of similar gunmen, who are prepared to oppose the government but only if it dares step on their particular patch. Musa Sude Yalahow, a former driver who controls much of Mogadishu, says that a central government might be a good idea—so long as it recognised his sub-clan's ownership of the capital. Not far away is Muhammad Qanyare's turf. He joined the government—being minister of fisheries is handy for his fishing fleets—but is hardly more committed to it. He will allow the police into his area “if they can give me a good enough reason”. So far they have not.

The government set about soothing tribal rivalries by sharing cabinet posts between clans and sub-clans. But the result was that ministers owed allegiance not to the government but to the clan elders who nominated them. Mr Galaid then tried to rule dictatorially. But this did not work, either.

Most Somalis are fed up with tribal politics. Some speak nostalgically of the days of Siad Barre, the despot toppled in 1991. Many welcomed the new lot, even though the president, Abdiquassim Salad Hassan, was Mr Barre's interior minister. But the government has failed to unite the country against the warlords. Instead, it has tried to buy them off in various ways: 15,000 ex-militiamen are now paid as policemen.

This has cost the government most of its money, and it still dare not deploy the new policemen throughout Mogadishu for fear they will return to their former masters. The Arab League has promised $400m to rebuild Somalia, but not until order returns. Peace talks began in Kenya on November 1st, but without several key warlords or much optimism.

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Changing Russia

Hope gleams anew

Nov 1st 2001 | MOSCOW
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At home and abroad, things have never looked brighter for Russia's president, Vladimir Putin. Will it last?

Get article background

IT IS hard, looking back over the past decade or so, to imagine a better few weeks for Russia—at home or abroad. Since September 11th, Vladimir Putin has done a lot to make the West like him. He has embraced the American-led anti-terrorist coalition, calling the air-strikes on Afghanistan "measured and appropriate". He has started closing a clutch of controversial foreign military bases. Even talks about talks with Chechen rebels have begun.

At home, the economy is still growing and reforms continue; the corpse of the *Kursk* submarine has been raised; and a notorious tycoon-cum-politician from the Yeltsin era, the railways minister, Nikolai Aksyonenko, is facing corruption charges.

When he emerged into public view two years ago, Mr Putin looked like a colourless compromise, in hock to the Yeltsin-era magnates and the hard men of the armed forces and the security services. He liked consensus and caution, not bold moves. The rhetoric was sometimes friendly and liberal but was rarely turned into action.

Not now. Particularly on foreign policy, he shows a striking sureness of touch, for example over the closure of two of Russia's remaining big Soviet trophies overseas, an electronic listening station in Cuba and a naval station in Vietnam. Hardliners moaned, but Mr Putin was adamant: they cost too much and were irrelevant to Russia's real needs. Russia has also softened on America's missile defence; a deal now looks in sight when Mr Putin meets President Bush this month. Relations with NATO have never been warmer.

Mr Putin is also reshaping Russia's stance in the former Soviet Union. Old-fashioned twitchiness about spheres of influence has lessened. American soldiers are now in Uzbekistan, with Kremlin blessing. Russia is pulling out some soldiers and weapons from a base in Abkhazia (a separatist bit of Georgia) and promises to do the same from Transdniestria (a Russian-speaking enclave of Moldova). Russia's presence in both places, in defiance of international obligations, has stoked fears of neo-imperialist schemes in the old empire.

Now the tone is very different. Mr Putin has been remarkably polite to Georgia, telling it to sort out the Abkhaz problem without Russia, if it wants to cope with a messy result alone. As Transdniestria's elections in December draw near, its peppery separatist leader, Igor Smirnov, looks vulnerable; the Kremlin is much chummier now with his Moldovan opponents. A top Russian general is even talking indirectly to Chechnya's president, Aslan Maskhadov, officially still a wanted criminal.

Economic reform is speeding up too. This week Mr Putin promised more tax reform and a new financial intelligence service to fight money-laundering; reiterated his country's eagerness to join the World Trade Organisation (WTO), the body that regulates global commerce; and said his country wanted "normal, candid and reliable" relations with the outside world.

An economic adviser, Andrei Illarionov, once a notorious gloomster, is also sounding very cheerful. Even

falling oil prices will not stunt Russia's economic growth, he says, though this is likely to be 4% next year, down from last year's record 8% figure. Russia is even thinking of paying back some of its foreign debt early. Though high oil prices and the effect of the huge devaluation in 1998 gave the economy a terrific fillip, restructured old firms and new businesses are helping too.

Change is least visible in politics. Regional elections are still tarnished by money and skulduggery. The bureaucracy is almost untouched. The squeeze on the independent press continues: Anna Politovskaya, the most intrepid Russian reporter dealing with Chechnya, has fled to Vienna after receiving threats. But the competent and well-publicised salvaging of the *Kursk* did strike a good note, in sharp contrast to the lies and confusion that surrounded the tragedy of its sinking as it unfolded in August last year.

But how deep does all this go? Kind words from Washington and London have given a gloss to Russia's image. But some hard truths remain. One is that although some interests overlap, others do not. Russia has little difficulty in supporting airstrikes against a common enemy, the Taliban. But any American move against, say, Iraq may be another story.

Another problem is that many of the people who matter in Russia still think very differently from Mr Putin. Even some of the president's own team sing a different song. Many senior soldiers still want to halt a final retreat from empire. This week Georgia, whose president, Edward Shevardnadze, is in political trouble, said Russian planes had again bombed its territory. Like Mikhail Gorbachev ten years ago, Mr Putin may find it hard to make a pro-western stance pay off at home.

Even some of Mr Putin's own team sing a different song

A lot of powerful people still resist economic reform too. Over the past ten years many people have done well out of Russia's entrenched protectionism, bureaucracy and cartels. They would hate to see them dismantled in favour of the international competition, openness, normality and reliability praised by Mr Putin. And for all the current back-slapping, Russia must still grow even faster if it is to catch up with the West reasonably soon. Foreign investment is still puny, despite an oil deal worth $12 billion announced this week. Huge tracts of the economy, such as the banks, utilities and the public sector, are largely unreformed.

A third question is sincerity. Mr Putin's motives are inscrutable. He may have calculated that now is the time to woo the West with grand gestures and spontaneous concessions, in the hope of a grateful payback later. Those hopes might include easier terms for joining the WTO or a new grand alliance with NATO, possibly at the expense of some of Russia's neighbours.

These are not immediate worries, though. Mr Putin's huge popularity means that his new foreign policy faces no direct threat. Most Russians are delighted to see their country more popular and respected, and glad to avoid a direct entanglement in Afghanistan. Even slow and patchy economic reforms are better than none. Still, real change in Russia, and real trust from the West, will take years, not weeks.

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France's Communists

Who's in charge?

Nov 1st 2001 | PARIS
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The party is probably on the skids, whoever runs it

EPA

Buffet ponders the menu

WILL two heads be better than one? The French Communist Party has just elected as its national secretary (and first-ever woman leader) Marie-George Buffet. Her task is to work with Robert Hue, national secretary for the past seven years and now named to the new post of party president, in the run-up to France's presidential and parliamentary elections. The first of these is due in only six months' time—and the joint challenge is to save from slow extinction a party which until 1978 was modern France's most powerful voice on the left.

It will not be easy. Mr Hue, overwhelmingly selected at the party's annual congress last weekend as its candidate for the French presidency, is a cuddly figure who has worked hard to distance the party from its Stalinist past. As for Mrs Buffet, she has proved an incisive minister of sport in the Socialist-led coalition government of Lionel Jospin, notably by refusing to turn a blind eye to rampant drug-taking in the annual Tour de France cycle race.

The trouble is, Mr Hue may be cuddly but he is not inspiring. In the last presidential election, in 1995, he won a mere 8.7% of the votes. For the next, the pollsters predict he will get just 5-6%, behind even Arlette Arguiller, the amusingly perennial Trotskyite candidate. Meanwhile, Mrs Buffet has lost face by her embarrassing inability at a recent football match in Paris between France and Algeria to silence the whistles that greeted the French national anthem.

In short, the prospects do not look good. Party membership, over 700,000 at the end of the second world war, is down to some 139,000; and the party's message either looks out-of-date, as in the call for more public spending, or undistinctive, as with anti-globalisation.

No matter. Mrs Buffet wants the party to get a 15-16% share of the vote (in the 1997 general election, it won just 9.9%). A foolhardy aim? Not necessarily. After all, most of the blame for failure would probably fall on Mr Hue—and Mrs Buffet could then become the sole leader.

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Security in Germany

Tightening up

Nov 1st 2001 | FRANKFURT
From The Economist print edition

The ruling coalition settles differences over security and immigration laws

BACK in August, Otto Schily's liberal side was on show. Germany's interior minister proposed an immigration law intended to open the door to the many thousands of foreign workers, mainly skilled ones, that the country may need in the decades ahead. But since September 11th Mr Schily has had to concentrate more on keeping unwanted foreigners out than on letting desirable ones in: no wonder, given the years that some of the perpetrators of the attacks on America spent in Germany. He is planning his second batch of tighter security measures since the outrages. Some 14 laws are due to be changed.

But Mr Schily's plans stirred bad blood between the parties in Germany's ruling coalition, the Social Democrats (to which he belongs) and the Greens. Many Greens felt that his ideas, on immigration and security alike, were too illiberal. Last weekend, however, after 30 hours of argument, Mr Schily reassured the Greens enough to win their support for the security package. Better still, they look likely to approve his immigration proposals too.

The first lot of security measures, approved by parliament in late September, let the Federal Office of Criminal Investigation (known as the BKA, Germany's version of America's FBI) investigate the activities in Germany of terrorist groups operating abroad. Now Mr Schily is going further, if not as far as he might have wished. Thus the BKA is to be allowed to look into crimes being organised over the Internet. On the basis of Mr Schily's draft, some feared that the BKA might be allowed to collect information without limit or cause. Never my intention, he said, assuring the Greens that the BKA will not carry out investigations without grounds.

On some other points, Mr Schily has had to soften. Suspicion of serious criminality alone will not now be enough to justify the deportation of asylum-seekers. And though Germans' (compulsory) identity cards may eventually have to carry not only photographs, as now, but also fingerprints or measurements of the iris or hands, members of parliament, not ministers, will decide what extra information there will be. Less controversially—among Greens, if not bankers—the Office for the Protection of the Constitution, the internal security service, will be able to ask for bank-account details. And armed German border police may soon be on civil aircraft.

The cabinet is likely to endorse the modified security plan and immigration law next week and then pass them on to parliament. The security measures look sure to go through, despite the conservative opposition's grumbles about the Greens' influence. Whether the immigration law will do the same is more doubtful. Mr Schily has squared the Greens by raising the proposed maximum age at which immigrants' children will be able to join their parents. But the government has a minority in the upper house, so he will need some opposition votes there.

No one, in any event, can know what Mr Schily's security measures will achieve. Some, such as the extra information on identity cards, will not be implemented for a long time, if ever. And as for repairing the fissures in the coalition, there will be plenty in the months ahead to divide the coalition parties, especially if German troops are sent a long way east.

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Turkey and corruption

Rotten eggs unbroken

Nov 1st 2001 | ANKARA
From The Economist print edition

Turkey's campaign against corruption in high places seems to be faltering

IF IT is to join the European Union, Turkey needs to tackle corruption and clean up its security service and police. It says it is trying. Recent events raise some doubts.

An appeals court last week quashed the convictions of a senior police officer, an intelligence man and 12 others for membership of a gang that trafficked in heroin and arms, laundering the proceeds in casinos in northern Cyprus. The two senior men had each been sentenced in February to six years in prison, and the case had been seen as a test of Turkish resolve to punish members of the security forces and other senior officials and politicians tainted by large-scale corruption or linked to the killings of Kurdish dissidents by death-squads. But the appeal judge said the investigation had not been thorough enough, and demanded a re-trial.

Some Turks keen to root out corruption in high places say this would be welcome, if it led the accused to reveal the names of higher-ranking figures involved. Others fear that the case will get buried as the time in law allowed for it runs out.

The case springs from a car crash in Susurluk, a small provincial town, five years ago, when an armoured Mercedes ran into a truck. In the car were Huseyin Kocadag, a prominent police chief, Abdullah Catli, an extreme-nationalist hitman previously convicted of heroin trafficking, and his girlfriend, a former beauty queen and drugs courier. All three died. The car's boot proved to be crammed with weapons. The one survivor, Sedat Bucak, a Kurdish MP whose private militia had helped the army fight Kurdish separatists, later claimed to have lost his memory. But investigation exposed a cat's-cradle of ties between politicians, officials and organised crime.

Adnan Keskin, a journalist who has courageously covered the Susurluk scandal for a liberal newspaper, *Radikal*, says he was rung up last week and warned to stop or “be prepared to face the consequences”. The Susurluk gang has already killed several nosy journalists. The caller, says Mr Keskin, was Mehmet Agar, an ultra-nationalist former interior minister who lost that post in 1996 after it emerged that he personally had issued the hitman, Catli, with a special passport carried by senior officials. Mr Agar was also stripped of his parliamentary immunity. But he was re-elected as an independent MP two years ago. So was Mr Bucak—and MPs have dilly-dallied over the prosecutor's request to lift the two men's immunity so that they can be questioned about the affair.

In notable contrast, MPs have sounded keener to lift the immunity of Sema Piskinsut, a left-wing deputy who has fearlessly campaigned against torture and who sat on a parliamentary commission of inquiry into the Susurluk affair. The chief prosecutor in Ankara has accused her of abetting torture, because she would not name the thousands of prisoners she interviewed for a parliamentary report on abuse in jails, nor yet their alleged torturers. She lost the chairmanship of parliament's committee on torture last winter, after it said that members of the military police were involved in drug-trafficking and extortion rackets in the south-east.

Earlier this year her son was beaten up, and she was prevented from addressing a convention of the ruling Democratic Left party at a time when she was trying to challenge Bulent Ecevit, the prime minister, for the party's leadership. Mrs Piskinsut resigned from the party and is trying to set up a new one specifically to tackle corruption and, among other things, to get to the bottom of the Susurluk case.

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Transalpine tunnels

No road

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Hauliers despair after a crash closes a second route under the Alps

FOUR major roads link Italy to markets and suppliers across the Alps. Three include long tunnels. In March 1999, one of these, the Mont Blanc tunnel into France, was closed by a fire, which killed 39 people. It was due to reopen this September. In fact, it will be open to cars only from mid-December, to trucks six weeks later—it is said. Meanwhile, some of the traffic was diverted to the St Gotthard tunnel farther east. It was already crowded. Last week, two trucks crashed head-on. Fire killed at least 11 people, and closed this tunnel too for foreseeable months ahead.

So another 3,000-4,000 trucks each day and 15,000 other vehicles are looking for alternative routes. But Austria limits the number of trucks it lets use the Brenner Pass. No wonder firemen at the Fréjus tunnel, the main remaining transalpine route from Turin, Italy's industrial engine-room, fear more trouble ahead. Nor that that city's factory managers and Europe's hauliers are near despair.

What can be done? For better safety, plenty, and soon: lower speed limits, longer gaps between vehicles, smaller fuel tanks for trucks, more fire extinguishers. Traffic in the two French-Italian tunnels is to become one-way: Fréjus north, Mont Blanc south one day, Fréjus south, Mont Blanc north the next. For freight managers, however, there is no comfort: some of these plans will make life harder, and nothing short-term (except relaxation of Austria's controls, already asked for, but not so far granted) can make it easier.

Local authorities along roads to the tunnels want fewer trucks, not more; voters and greens want none. Use rail, they say. But for most cargoes, on most journeys, rail is less convenient and costs more. And although rail took a third of last year's 112m tonnes of transalpine freight, its capacity too is limited. The Swiss have grand plans to construct a new St Gotthard rail tunnel (there is one already)—by 2012, maybe. The French and Italian governments last winter announced similar plans for a new tunnel and rail-freight link from Turin westward to Lyons—by 2015, perhaps.

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Charlemagne

Wlodzimierz Cimoszewicz

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The biggest of NATO's new countries has a go-ahead new foreign minister

THE Bush family goes down well in Poland. The older George was feted when he visited Warsaw a decade ago, promoting his short-lived “new world order”. His son got an equally rapturous welcome in Poland's capital this summer, when he offered a less airy-fairy, more practical, but still ambitious vision for Central and Eastern Europe: no new world order but an expanding European Union and a NATO alliance that might have room for the Balts (too controversial to be mentioned as likely members in Bush Senior's day) and even, in time, for a healthy and westward-looking Ukraine. Nor, if Russia ever became prosperous, stable and fully democratic, should the door to Europe's clubs be slammed shut on it either. A new wall, said President Bush, must not rend the continent in half again. Most Poles were delighted. America's president seemed to echo their highest hopes.

Not surprisingly. America has had trouble finding reliable allies in the once-communist bits of Europe. But Poland, with its big American diaspora and reviving capitalist spirit, is its most trusted ally in the region. The victory in September of the Democratic Left Alliance, a party led by ex-communists successfully repackaged as social democrats, has not dampened friendship with the United States at all. Even before September 11th, American diplomats had come to view Poland as Atlantic in all but geography—however keen it is to “rejoin Europe”. Not for nothing is a Polish commando regiment, known as GROM, keen to fight alongside American forces in Afghanistan. Poland's ex-communists are four-square behind the West's anti-terrorist alliance.

Moreover, Poland has been emerging as easily the most important country in Central Europe, with hopes one day to match Spain and Italy in influence behind Europe's trio of top countries (Germany, Britain, France). In the councils of an enlarged Union, Poland will have as many votes as Spain. With 40m people, a land mass stretching from the Baltic to the Carpathians, and seven countries abutting it, everyone now seems to want to have Poland on their side.

For America, Poland is an important and trusted ally in central Europe

For the first time in many centuries it may be able to take advantage of its place at the hub of a new kind of Europe with a centre of gravity likely to nudge eastwards. Many lower-paid German workers fret about Poles “stealing their jobs” but Germany's government goes out of its way to insist that an expansion of the EU without Poland is unthinkable. Britain, appreciating Poland's prickly nationalism and its fear of submerging in a federal superstate, seeks to embrace it as a like-minded future club member. France, a big investor in Poland, tries to cultivate Poles' historic (if waning) francophilia, harking back to the days when Polish toffs were the toast of Parisian salons. Even Russia has, with some success, been cosying up.

Poland's new foreign minister, Wlodzimierz Cimoszewicz (pronounced, roughly, Chimmo-Shayvitch), a 51-year-old former law lecturer who spent a year as a Fulbright fellow at Columbia University in New York two decades ago, is the man charged with encouraging these trends. A bit of a maverick, in 1985 he abandoned his job at Warsaw University, and his prospects in communist politics, to seek the good life with his wife and two children as a pig farmer in Poland's poor north-east. “The happiest days of my life”, he says wistfully, in polished English. He rediscovered his political ambition in the early 1990s, declaring himself an “independent leftist” (a badge he still likes to wear) and teaming up with Alexander Kwasniewski, a pal who was a sports minister in a Soviet-era communist government, to found the Democratic Left Alliance. In 1995, Mr Kwasniewski became president (a post he still holds). The year after, Mr Cimoszewicz was briefly prime minister. Since September's election, he and his friends have looked set to run the show for some years.

More hopeful on the foreign front

With Poland's economy turning quite sour after several pretty sweet years, the government will be all the keener for Mr Cimoszewicz to do well abroad. He has clear priorities: to ensure that Poland joins the EU; to keep Ukraine, its large neighbour to the east, looking west; and, especially after the events of September 11th, to prove Poland a useful member of NATO.

“We can get into the EU by 2004,” he says sharply, though most bigwigs in Brussels are betting on 2005. But he has three tricky problems to solve: the sale of Polish land to foreigners; EU subsidies for Polish farmers; and the right of Poles to work freely inside the Union once Poland joins. Mr Cimoszewicz expects a compromise over the land-sale question. He accepts that Brussels is unlikely to give much of a handout to Polish farmers. But he will fiercely argue for the free flow of labour. Last week Polish and EU negotiators achieved a breakthrough on environmental issues by agreeing to a transitional formula that other applicant countries may try to use.

Mr Cimoszewicz worries that Poles may feel hemmed in, psychologically as well as literally, if they join the EU but still have tight border controls on their western flank with Germany while the EU erects a wall to keep out Ukrainians and Belarussian in the east. He is particularly sensitive on this score because his own farm and constituency are near Belarus' border. Europe's foreign ministers will come there to hobnob over herbal vodka in his hunting lodge deep in the primeval Bialowieski forest, where he and his dachshunds hunt deer and boar. The EU's future eastern boundary is just a short walk through the trees. If it is too heavily policed, he fears, communities will be separated and today's vibrant trade will dry up. Already, he says, the gap in average incomes is wider between Poland and Belarus than between Poland and Germany. Poland's relations with the rotten regime in Belarus are strained, but Mr Cimoszewicz still wants to help foster a better society there. Helping Ukraine, he thinks, is even more important. “Poland can never be truly secure,” he says, “unless Ukraine prospers as well.”

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Asylum

A little less lunacy

Nov 1st 2001
From The Economist print edition

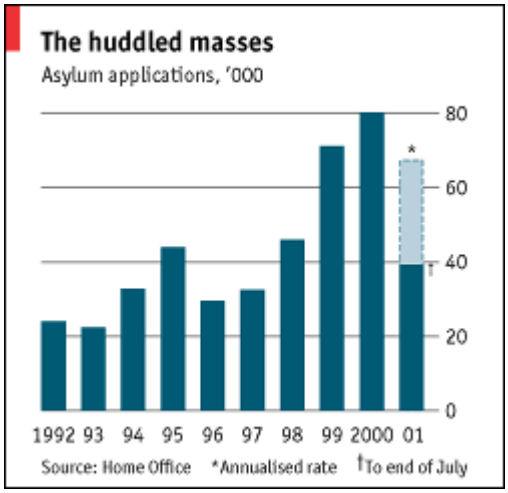
PA

Asylum policy may not have changed much, but the politicians' attitudes have. That may be more important

WHILE Tony Blair has been busy inculcating martial resolve, his ministerial lieutenants, led by David Blunkett, the home secretary, have conducted a campaign of tactical retreats. The tuition fees for universities, which, as education secretary, Mr Blunkett introduced, are now being reviewed. Mr Blunkett himself has softened the pointlessly tough line on cannabis espoused by his predecessor, Jack Straw. Then, this week, he apparently defenestrated Mr Straw's policies for dealing with asylum-seekers. In fact, Mr Blunkett has not quite executed the U-turn on asylum for which he has been both jeered and praised. But Parliament has witnessed another, perhaps more important, U-turn.

Mr Straw's asylum strategy managed to combine brutality with incompetence. To relieve the pressure on the south-east of England, asylum-seekers have been dispersed to other British cities—but have too often been housed in decaying council estates, arousing local resentment (in August, a Kurd was murdered in Glasgow). Mr Straw decided to give asylum-seekers vouchers rather than cash benefits—but this wheeze became a *cause célèbre* for the left, which argued persuasively that vouchers were inefficient and demeaning. Meanwhile, efforts to cut the backlog of asylum claims created an explosion in asylum appeals. And the number of unsuccessful applicants actually deported remains tiny: last year, including dependants, 98,900 people claimed asylum in Britain; only 8,930 were removed.

Given this pandemonium, it is understandable that Mr Blunkett was keen to convey the impression (in the nicest possible way) of a radical change of tack. In the ideal system he unveiled, asylum-seekers will be housed in new accommodation centres, of the kind that already exist in Scandinavia, the Netherlands and elsewhere. The residents would be free to leave, though they will thereby forfeit state aid. A complex network of other centres will induct and track new claimants, and incarcerate those about to be ejected. Having abandoned the idea of issuing every Briton with an ID card, Mr Blunkett now proposes to try them out on asylum-seekers, to help reduce fraud. Opportunities to appeal will be restricted, and (he hopes) 30,000 failed asylum-seekers will be deported in the next financial year. Vouchers will be scrapped by next autumn.



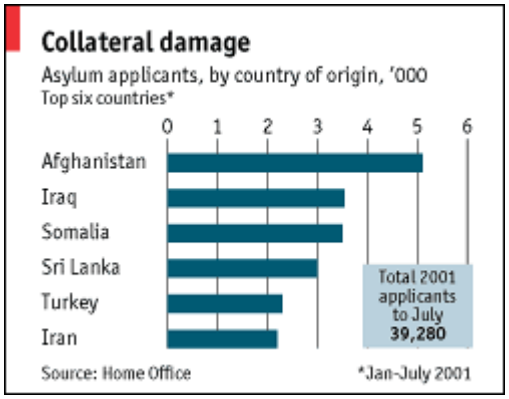
These plans were greeted enthusiastically in Parliament and beyond, including by Michael Martin, the speaker of the House of Commons, who was so excited by the demise of vouchers that he departed from parliamentary protocol to say so. This warm reception is a tribute to Mr Blunkett's spin doctors, because his proposals are, to say the least, sketchy.

In theory, the pain of both vouchers and dispersal will be cured by the advent of Mr Blunkett's accommodation centres. But it is not clear when, if ever, more than a fraction of asylum-seekers will reside in them. Four pilot centres will be open by early 2003—but even making optimistic assumptions about their efficiency, they will only hold 6,000 people per year. Labour argued that the detention centres recently proposed by the Conservatives would be prohibitively expensive, and the same may apply to Mr Blunkett's variation of them. Meanwhile, dispersal will continue. Vouchers will go—but it is not clear what will replace them. Support for asylum-seekers remains well below the level for poor Britons.

Changed, changed utterly

Although, as Simon Hughes, home affairs spokesman for the Liberal Democrats, says, Mr Blunkett has executed more of a reversal than a U-turn, a real change was evident when he presented his plans to Parliament. Oliver Letwin, the shadow home secretary, was dutifully critical, but sounded more like an ally of the refugee charities than of the tabloids. The inflammatory vocabulary that used to punctuate asylum debates was gone. There was a lot of sensible talk about economic migration.

This is in part down to a change of personnel. Where his predecessors considered the flailing asylum system to be a slur on the nation's pride and a threat to its integrity, Mr Letwin regards it as a management problem. He is not even aggrieved that Mr Blunkett has assimilated some Tory ideas ("hats off to him", Mr Letwin says). Mr Hughes says that the post-election lull, and sensitivity about inflaming ethnic tensions, have also contributed to the change. Perhaps, considering that Afghanistan is currently the biggest source of asylum-seekers (see chart), and the refugee burden Pakistan has to bear—2m and growing—Britain's asylum problem no longer seems quite so onerous.



Anyway, the asylum problem has largely been about perception. The numbers are not large enough to have much impact on the country's population. Only a tiny fraction of government expenditure is spent on asylum-seekers. Britain is not especially generous to them, compared with other EU countries, in terms of the number it lets in, or the benefits it gives them.

Britain's shrunken political discourse, mixed with a residue of racism and xenophobia, has elevated the asylum question to a prominence it doesn't deserve. A healthier attitude among politicians will make much of the problem go away.

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Parliamentary sleaze

Sacked, but so politely

Nov 1st 2001
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MPs often complain that they are regarded by the public as devious, cynical and corrupt. They have only themselves to blame

WHEN Elizabeth Filkin, the parliamentary commissioner for standards, was appointed in 1999 to supervise the MPs' Register of Interests, she was told that Parliament wanted a tougher approach than that adopted by her predecessor, Sir Gordon Downey. Sir Gordon is a mandarin who made a point of never treading on important toes. Mrs Filkin, a former Inland Revenue adjudicator, is a blunter sort of cop. She has fulfilled her brief admirably. As a result, she has been told that she is not to be reappointed when her initial three-year term expires early next year. Her job is to be advertised; and she has been "invited" to reapply for it.

This is not normal practice. According to the guidelines set out by the Commission for Public Appointments, open competition is appropriate only when a sitting official seeks a third term or has been in post for ten years. In effect, Mrs Filkin is being fired for being too rigorous. Her sacking has sent out an unmistakable signal that MPs will ruthlessly defend their own interests against any outsider who seeks to enforce Parliament's own rules on disclosure and conflicts of interest.

The parliamentary commissioner for standards was forced on a reluctant Commons by John Major, the previous prime minister, in 1995 in the wake of a scandal involving cash and brown envelopes. The commissioner reports to the Standards and Privileges Committee which adjudicates on her findings.

The sniping about Mrs Filkin first surfaced after she found that Peter Mandelson, a former trade and industry secretary, had broken parliamentary rules by failing to declare a £373,000 ($541,000) loan from his fellow cabinet minister, Geoffrey Robinson. The standards committee administered a minor rebuke and said that no further action should be taken.

The rumours and the whispers around the Commons bars about "Mrs Longnose" and "the witch-hunter in chief" then began in earnest. The prime minister, the whips and other influential friends of Peter's could have stopped such talk but chose not to. The standards committee, dominated by Labour MPs, was unwilling to back her up against senior Labour figures. A finding that the deputy prime minister, John Prescott, should have declared an interest in a London flat, rented to him at a cheap rate by the Rail Maritime and Transport Union, was rejected by the committee on a flimsy legal technicality. Mr Prescott was simply invited to add the rented flat to his entry in the Register of Interests "in view of the current climate".

The committee rejected Mrs Filkin's ruling that John Reid, now the Northern Ireland secretary, and John Maxton, then a Glasgow MP, had wrongly used their parliamentary allowances to pay researchers to campaign for Labour in the 1999 Scottish parliamentary election. Mrs Filkin also found that they had sought to obstruct her inquiry and said that key witnesses had been put under pressure. She produced a recording of a phone conversation in which an irate Mr Reid berated the former general secretary of the Scottish Labour Party, Alex Rowley, shortly before he was due to be questioned. Strong stuff, but not strong enough for the committee, which decided not to uphold Mrs Filkin's findings on the grounds that there was insufficient evidence.

Even where the committee has backed the commissioner, it has done so half-heartedly. A former Foreign Office minister, Keith Vaz, was found to have broken parliamentary rules on disclosure, but the committee declined to take the matter any further, refusing even to examine a key witness under oath. Mr Robinson was this month finally suspended from the Commons for three weeks because of evidence that he had concealed a payment for £200,000 from the late Robert Maxwell. The committee acted only after a three-month delay, which conveniently coincided with a general election.

Mrs Filkin is understaffed, as well as undermined: she has only four staff. She also lacks the power to require witnesses to give evidence or documents to be produced. Her treatment is unlikely to encourage a distinguished list of applicants for her job. As Peter Bottomley, a member of the standards committee, acknowledges, “No one worth their salt would tolerate what has been dished out to the present incumbent.”

One of Mrs Filkin's more open critics, the former speaker, Betty Boothroyd, accused her of lacking “political acumen”. That, it is generally acknowledged in Westminster, is the trouble with the woman. She just won't play the game.

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Civil defence

The stiff-upper-lip policy

Nov 1st 2001
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Is Britain well prepared for terrorism? The government isn't saying

LAST year an exercise called Operation Trump Card was held in London to simulate a chemical weapons attack. The government found it most instructive. As a spokesman put it, the main lesson of Trump Card was that “if you put too much information out before an attack, people get confused and cannot remember it.”

While America is preoccupied with precautions against further terrorist attacks, nothing much seems to have happened in Britain, even though it is presumably next in line. There are a few more barriers up against possible suicide drivers in Whitehall. Hospitals have been issued with instructions on how to react to biological or chemical warfare attacks. But people have been told nothing.

This is not, says the government, the result of negligence. It says that it has deliberately adopted a low-key approach to terrorist prevention, precisely to avoid the sort of confusion that has been seen in America. Britain, say civil servants, is anyway better prepared for terrorist attacks, because it has been dealing with the boys from Belfast for so long. Of course, the IRA never went in for suicide bombing; so plans are being adjusted—in so far as they can be—to cope with that contingency. Even so, civil servants maintain that behind the scenes, Britain is as well prepared for terrorist attacks as it could be.

Could this policy of discretion just be a smokescreen for the traditional Whitehall vices of too much needless secrecy and official complacency? Hard to tell, given that withholding information about what it is doing is part of the policy. But Paul Wilkinson, the country's foremost academic expert on terrorism, based at the University of St. Andrews, does not think so. He argues that the government has got it about right. A public information campaign on the threat from anthrax, for instance, in the absence of any specific threat “would create unnecessary alarm and encourage a wave of hoax incidents, playing into the terrorists' hands”.

Mr Wilkinson agrees with the government that Britain is relatively well equipped to deal with terror. Last year's Terrorism Act, he says, is proving effective in chasing the terrorists' money. Other countries are looking at Britain's model. Mr Wilkinson has just returned from explaining the law to the Canadian government, which is basing some of its new anti-terrorism bill on Britain's.

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Teaching history

Achtung! Too many Nazis

Nov 1st 2001
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Hitler dominates history teaching in Britain's schools

A LITTLE knowledge is a dangerous thing; and, in the opinion of Martin Roberts, headteacher of the Cherwell School in Oxford, British schoolchildren are getting far too little of it. In an article in *History Today*, Mr Roberts argues that, despite the recent reform of the A-level syllabus, history teaching in English schools is becoming worryingly narrow.

Most pupils studying history in schools now opt for one of three subjects: early modern British history (the Tudors and Stuarts), and the histories of Soviet Russia (1917-45) and Nazi Germany (1919-45). Of those, Nazi Germany dominates. It is the only subject that pupils can study for the national curriculum, GCSE and A-level—and, boring though it sounds, many pupils take that option, because it makes passing exams easier. But the consequence is a generation of children for whom history is populated exclusively by European dictators with funny moustaches.

Exam board statistics lend support to these concerns. For GCSE history, OCR, the second most popular board in England, offers three syllabuses, “the modern world”, “schools history project” and “modern British social and economic history”. The first two offer modules on Nazi Germany. In 2000, 41,813 pupils took “the modern world” syllabus, of whom 28,971 opted for the Nazi Germany module, and 3,094 for Stalin's Russia. 28,386 pupils did the “schools history project”, of whom 9,168 took the Nazi Germany option. And, by contrast, just 4,968 opted to study the modern British history syllabus. At A-level, 80% of history pupils were examined on Nazi Germany and Soviet Russia.

Nazi Germany has always been popular with pupils. But in recent years, as Mr Roberts laments, it has also become increasingly popular with teachers because of the trend in favour of the “methodology” of history over the history itself. As long as sources are analysed, the subject matter is of no great significance. The study of Nazi Germany, with its wealth of different sources from films to posters, lends itself to this approach. But the danger is that students end up knowing a lot about specific documents, and little about the overall narrative.

Mr Roberts's observation has provoked anxious debate amongst historians and educationalists. This trend, they fear, denies students the opportunity for broader study. “History for the MTV generation,” is how one of the critics describes it. “Know a little and keep on repeating it.”

It also distorts history. Many Europeans—Germans in particular—have long been convinced that the preoccupation with Hitler in British schools has been responsible for making even the younger generation of Britons antagonistic towards Europe. They are certainly likely to be ignorant of the place. For all those courses on Nazi Germany, it remains almost impossible to study post-war Europe.

This narrow view of history may also give Britons a dangerously warm glow. Mr Roberts argues that the obsession with Hitler, Stalin and the Tudors and Stuarts reflects a preference for “feelgood history”—stories that make the British feel comfortable about themselves. Mr Roberts worries that “the world has changed dramatically since the end of the cold war”, and that the current narrow range of history now on offer provides no link into the new world of religious extremism, globalisation and federalism.

The exam boards argue that they are merely responding to demand: pupils want to study the Nazis, and teachers argue that Hitler helps them engage their pupils' attention. What's more, the more pupils study a subject, the cheaper the text-books tend to be; and starting a new syllabus is not just expensive, it is also hard work. Too bad, say Mr Roberts and his supporters: it is the job of schools and history teachers to make the rest of history as accessible and exciting as Hitler and Henry VIII.

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The economy

Leader of the pack

Nov 1st 2001
From The Economist print edition

For once, Britain looks set to out-perform other major economies

CONSUMERS and businessmen are increasingly nervous. Consumer confidence has slipped to its lowest level since the fuel protests last year. Industrial confidence has suffered its sharpest fall in two decades. These are testing times for a Labour government that boasted in the last election of banishing boom and bust.

But most economic forecasters are saying that Britain will pass this test. The economy grew in the third quarter at an annual rate of 2.4%. This may be lower than the expansion of almost 3% last year but is in line with the trend rate of growth. *The Economist*'s panel of forecasters expects the economy to grow by almost 2% in 2002.

As much of the industrialised world slides into a synchronised recession, Britain has grown more rapidly than any of the other "Group of Seven" major industrial nations for the second consecutive quarter. It is on course to be the fastest-growing economy of the G7 countries not only this year but also next, says the National Institute of Economic and Social Research. Not since 1986 has Britain led the pack like this.

Over the past three decades, Britain has tended to suffer more than most in the lean years. Gordon Brown, the chancellor of the exchequer, believes that this economic instability has held back Britain's long-term growth performance. He claims that his new framework for economic management, both fiscal and monetary, should reduce instability.

Yet one reason why the economy is expected to do well is a fiscal boost that was originally planned for last year. Then Mr Brown's budget was criticised by the International Monetary Fund as "regrettably pro-cyclical". Through accident rather than design, the fiscal expansion was largely postponed until this year, when it is turning out to be helpfully anti-cyclical.

Mr Brown can take more credit for his decision to make the Bank of England independent. Under new management, the Bank has shown itself to be much more fleet-footed than the tyro European Central Bank in Frankfurt. The Bank of England has acted promptly to cut interest rates since the first signs of weakness in the American economy emerged at the start of the year. With little inflationary pressure, there is scope for further cuts in rates.

But there is another candidate that can claim credit for Britain's surprisingly robust economy. Step forward the consumer. Despite the gathering gloom among businessmen, individuals have felt confident enough about their own prospects to shop till they drop. The irony is that until recently the Bank was worried about the obdurate strength of consumer expenditure at a time when the public sector was turning into a big spender. Now the consumer has turned from dangerous spendthrift to life-saver.

Shop, patriots

The real worry now is whether households will start cutting back. Consumer confidence fell in October, according to a survey carried out by Martin Hamblin GFK, a research company, for the European Commission, and published this week. But consumers remain more confident than in 1998, when there were worries about a downturn caused by the crisis in emerging markets.

Much depends upon the labour market. As long as people feel secure in their jobs, they are unlikely to retrench. Although the number of people claiming unemployment benefit continues to fall, the ILO

measure of unemployment has started to rise. Yet the labour market has been so tight recently that it could take a big rise in unemployment to rein in consumer spending.

There are two principal risks ahead. The first is that companies may cut investment further. The second is that the world downturn may get still worse. If Britain does suffer a more serious economic reverse than predicted, it will not be much comfort to know that it is doing less badly than other countries.

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Executive pay

In the money

Nov 1st 2001
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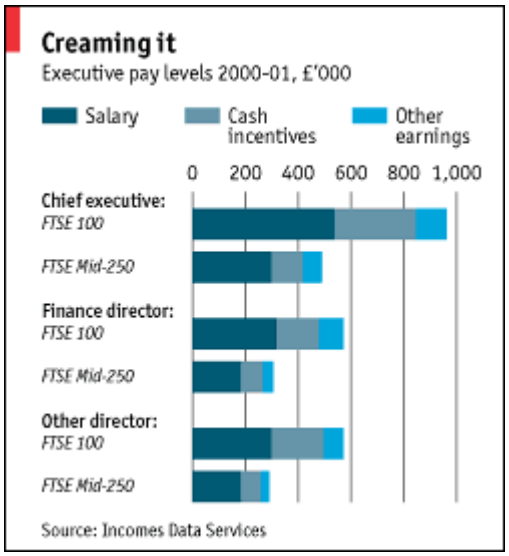
Will shareholder votes curb corporate greed?

COMPANY directors are so good at looking after each other. Sir Peter Bonfield, chief executive of BT, has hardly covered himself with glory. Now that he is to step down, at the end of January, his board has kindly offered him almost £1.5m in salary, bonus and benefits and more in share options.

That may be a reasonable price for evicting Sir Peter early. But it will add to the impression of boardroom greed conveyed by a new survey by Incomes Data Services, a consultancy. It found that the basic salaries of FTSE 100 bosses rose by an average of 14.8% and the value of basic salary, bonuses and benefits by 18.3% in the latest financial year. Workers' pay settlements are running at 3-4%.



The bosses' figures refer mainly to financial years ending last December or March. So boards agreed on them when the world was cheerier. Moreover, they are still modest by American standards. Even the reward given to Chris Gent at Vodafone AirTouch, a vast package of £9.8m, including that controversial £5m bonus for purchasing Mannesmann, was not much above the average for a chief executive at the 200 biggest American companies: $11.3m in 2000, according to Pearl Meyer, a pay consultancy.

But the figures will add to the clamour for shareholders to have more say. On October 19th, Patricia Hewitt, the trade and industry secretary, launched proposals to allow shareholders to vote on directors' pay, and to see how far they met their performance goals. Voting may not do much to link pay to performance. Shareholders will be voting mainly on the previous year's awards, long after the horse has bolted.

American bosses' pay is tied more closely to their share prices. In big American companies almost 60% of chief-executive pay is in share options. In Britain, (see chart) the notional value of share-linked rewards accounted for only 12% of what bosses got. But these days, share options are not much of an incentive: many are too deep underwater.

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Television

Football's revenge

Nov 1st 2001
From The Economist print edition

Fans used to worry that television would corrupt football. It turns out that football has corrupted the television companies

WITH their exorbitant salaries and pop-star wives, Britain's professional footballers are unlikely candidates for industrial action. The fact that they are currently considering it seems to confirm the fears of those fans who always thought television money would corrupt the beautiful game. The players are being balloted about a strike to protest at what their union says is the miserly share it has been offered of football's whopping television revenues. But the dispute is so bitter in part because the flow of television lucre is slowing down.

And my salary's that big

When ITV snatched the rights to broadcast highlights of the Premier League on Saturday evening from the BBC, at a price of £183m for three seasons, it looked like a spectacular coup. The schedulers decided to showcase their new asset in the prime entertainment slot of 7pm—to the delight of wives and girlfriends tired of curtailing their nights out to be home for the BBC programme at 10.30. But the audience figures worried advertisers, and football dragged down ITV'S viewing share for the whole evening. Last week ITV ignominiously decided that, after November 3rd, the football would be moved back to 10.30.

The two presumptions behind the original scheduling—that football has become a pre-requisite for building an audience base, and that there's plenty of scope for increasing the audience for football—inform the even greater folly of ITV Digital, the flailing terrestrial digital platform owned by Granada and Carlton, the two biggest ITV companies.

ITV Digital (until recently known as ONdigital) wants to challenge the pre-eminence in the pay-TV market of BSkyB, whose success has been founded on football. In August, ITV Sport, a new digital channel, was launched, with an annual programme budget of £150m. For £315m over three years, it has secured the rights to broadcast matches from the (distinctly unglamorous) Worthington Cup, and the Nationwide League (ditto). The digital platform also carries some matches from the (more exciting) European Champions League, and some Premier League matches on a pay-per-view basis. ITV Digital can thus boast that it broadcasts more live football matches than does Sky.

The trouble is, they are the wrong football matches. Mark Oliver, of Oliver and Ohlbaum, a sports consultancy, says that fans will consume only a certain number of games a week. Addicts might be induced to watch more if they involve their own teams, but even these people are evidently not that keen on the fare ITV Digital offers. The viewing figures for some games have been so low that it would have been cheaper to send the audiences to the game than to broadcast them.

If ITV Sport were carried by Sky, the viewing figures would of course improve. But all this football is supposed, first and foremost, to boost ITV Digital's own subscriber base. In the quarter ending on September 30th, during which the platform was re-branded and the sports channel launched, it gained 82,000 subscribers, taking the total to 1,217,000. ITV Digital is now scheduled to break even in 2004, after £1.1 billion has been spent on it. But the growth was not enough to pacify investors. Rumours that Carlton and Granada might close it or sell it have caused their share prices to rally.

Of course, not all of ITV Digital's woes can be blamed on football. It operates in a crowded marketplace, and suffers serious technical problems, which partly explain why 23% of its subscribers gave up on it in the last quarter. It is also not the only television company to have overpaid for football: the £1.1 billion Sky laid out for three seasons' worth of live Premier League games now looks extravagant. But football is a big part of the problem.

From now on, football rights are likely to be worth a lot less. There is even talk that the current deals might be renegotiated. Big clubs will try to make their own deals, rather than doing them through the leagues, or broadcast their games themselves, either on their own channels or on the Internet. All this will threaten the precarious financial position of many clubs, only a small number of which make a profit. Like ITV Digital, too many have over-extended themselves in the pursuit of elusive glory. The share prices of listed clubs have suffered (though not as badly as the television companies they have been making money out of: see chart). Since football relies on the thrill of competition, an even bigger gap between rich and poor will be bad for everyone's business.

Still, it would be wrong to say that football has suffered from the television largesse. The big fear is that the middle classes—attracted by the birth of the Premier League in 1992, and Luciano Pavarotti singing the theme tune to the 1990 World Cup—will desert. As Rogan Taylor of the Football Industry Group at Liverpool University says, what comes into fashion generally goes out again. But that hasn't happened yet. The big winners from the boom have been the top players, and the car dealerships they patronise. And the biggest losers have been the television companies.

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Bagehot

Spinning the war

Nov 1st 2001
From The Economist print edition

From Hamlet's father's ghost to Blair of Arabia in just one week

TONY BLAIR'S first known dramatic role was to play Mark Antony in “Julius Caesar” at the age of 14. The global war on terrorism seems at present more reminiscent of “Hamlet”.

In the prime minister's mind, it is, let us say, act three. As American bombs take their grim toll of civilian lives, conscience makes cowards of us all, the native hue of resolution is sicklied o'er with the pale cast of thought, enterprises of great pith and moment turn awry—and so on and so forth. More prosaically, an ICM poll published in the *Guardian* reported this week that 54% of Britons favoured a pause in the bombing to allow aid convoys into the country, that opposition to military action had risen from 16% to 20% in a fortnight, that support for it had fallen from 74% to 62%, and that the percentage of “don't knows” was up from 10% to 18%. Although most newspapers continue to support the war, the *Mirror*, a mass-circulation tabloid newspaper traditionally close to the Labour Party, ran an apparently serious front-page splash by one of its writers calling the war a “fraud” got up by George Bush as part of an American plan to exploit oil and gas reserves in the Caspian basin.

Needless to say, Mr Blair is not himself playing the prince of Denmark in this drama. When in war mode, he is not one to wring his hands, look pale, wonder what to do and waste time flushing out the last bit of evidence that clinches the guilt of Osama bin Laden. Apart from anything else, a punishing itinerary leaves him no time for doubt, vacillation and second thoughts. In the several weeks since the terror attacks on America, Mr Blair has paid spine-stiffening visits to Berlin, Paris, New York, Washington, Brussels, Moscow, Islamabad, Delhi, Geneva, Oman, Cairo and—this week alone—Damascus, Riyadh, Amman and Tel Aviv. Back home he plays Hamlet's father's ghost. Every couple of scenes, when he considers the British people in danger of losing their appetite for military action, he emerges like a phantom to harrow up the blood, recall the horror of September 11th and whet their almost-blunted purpose.

This was the point of the much-trailed speech Mr Blair gave in Cardiff on October 30th, urging people not to forget how they felt when the hijacked airliners struck the twin towers. He promised not to falter until the al-Qaeda network had been destroyed. But he also gave warning that the terrorists had one hope. They hoped that the western democracies were decadent: “that we lack the moral fibre or will or courage to take them on; that we might begin but we won't finish; that we will start, then falter; that when the first setbacks occur we will lose our nerve”. In this, he said, the terrorists were mistaken. The aim would be achieved, and by the methods already adumbrated: the use of airpower, ground operations and local allies to remove the al-Qaeda network's Taliban protectors.

Unlike the recent speech to his party, in which Mr Blair promised to save the whole world, this was a sober declaration of intent in Afghanistan. It was welcome, too, to the extent that people really have allowed themselves to forget the images of September 11th. But how many people have? Although the polls are softening as the war drags on, a majority continues to favour military action. Apart from the humanitarian worries, the question on many minds—including that of the *Mirror*—is not whether this war ought to be fought but whether it can be won by means of the present strategy.

It is harder for Mr Blair to defend the war's strategy than its morality. This is not because the strategy is flawed (though it may be). It is because even if everything is going to plan in the best of all possible military plans, he cannot say much out loud about what the plan is. Moreover, Mr Blair is not running the war. He can point out that the doubters from previous conflicts, such as Kosovo and the Falklands, turned out to be wrong. He can appeal to people to trust their elected leaders. But where the conduct of the war is concerned, he is not the leader who matters. Mr Blair is much appreciated in Washington. But such has been Britain's military decline in the past half-century that not even he, with all his Thespian

skill, can play Churchill to George Bush's Roosevelt. People in Britain understand that this is ultimately Mr Bush's war. The confidence they have in it will eventually depend on how much confidence they have in Mr Bush. Mr Blair has taken an extraordinary risk by making his own soaring reputation the hostage of an American president.

A pretence too far?

Is Mr Blair taking another sort of risk with Britain's own reputation? After his speech in Cardiff, he sped off for Damascus, Saudi Arabia and Israel. Recently, he met Yasser Arafat in London. Some in the Middle East therefore wonder whether Mr Blair has been given Mr Bush's power of attorney to nudge the Israeli-Palestinian peace process back into life.

If so, nothing in his reception by Syria's president, Bashar Assad, suggests that he can. When Mr Blair asked Mr Assad to restrain Palestinian terrorist groups headquartered in Syria, his predictable reward was a public lecture on how these “terrorists” were no less entitled to resist Israel than the Frenchmen who resisted Nazi occupation in the second world war.

In truth, Mr Blair is too shrewd to have supposed that he could barge into the Middle East and, on the strength of what he learned in Northern Ireland, slice through a Gordian knot that has tangled peacemakers for a century. If he is doing Mr Bush's bidding, it is probably only to calm this vulnerable flank while the Americans concentrate on Afghanistan. But when Mr Blair was in Damascus, Mr Assad also scolded the Americans for the civilian casualties they were causing in Afghanistan. So if Mr Blair's real aim was to muster new Arab support for the Afghan war, he did not achieve that either. Nobody should blame Mr Blair for trying. But nor, whether at home or abroad, will anyone thank him for promising more than he can deliver.

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Correction

Nov 1st 2001
From The Economist print edition

In "Made in Manhattan" (October 20th) we said that Bill Flynn was chairman of Liberty Mutual Insurance. We were wrong. Mr Flynn is chairman of Mutual of America. Sorry.

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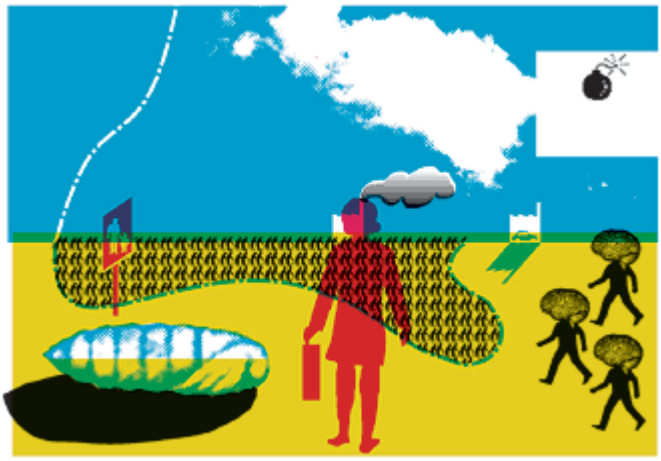
The next society

Nov 1st 2001
From The Economist print edition

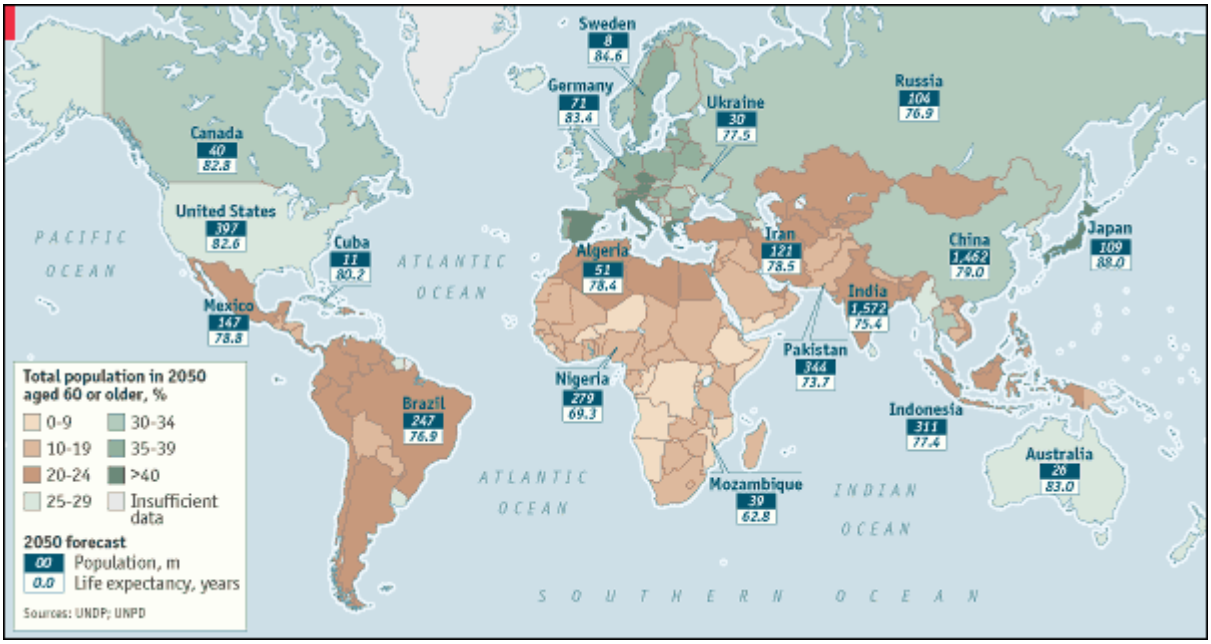


Tomorrow is closer than you think. Peter Drucker* explains how it will differ from today, and what needs to be done to prepare for it

THE new economy may or may not materialise, but there is no doubt that the next society will be with us shortly. In the developed world, and probably in the emerging countries as well, this new society will be a good deal more important than the new economy (if any). It will be quite different from the society of the late 20th century, and also different from what most people expect. Much of it will be unprecedented. And most of it is already here, or is rapidly emerging.

In the developed countries, the dominant factor in the next society will be something to which most people are only just beginning to pay attention: the rapid growth in the older population and the rapid shrinking of the younger generation. Politicians everywhere still promise to save the existing pensions system, but they—and their constituents—know perfectly well that in another 25 years people will have to keep working until their mid-70s, health permitting.

What has not yet sunk in is that a growing number of older people—say those over 50—will not keep on working as traditional full-time nine-to-five employees, but will participate in the labour force in many new and different ways: as temporaries, as part-timers, as consultants, on special assignments and so on. What used to be personnel and are now known as human-resources departments still assume that those who work for an organisation are full-time employees. Employment laws and regulations are based on the same assumption. Within 20 or 25 years, however, perhaps as many as half the people who work for an organisation will not be employed by it, certainly not on a full-time basis. This will be especially true for older people. New ways of working with people at arm's length will increasingly become the central managerial issue of employing organisations, and not just of businesses.



The shrinking of the younger population will cause an even greater upheaval, if only because nothing like this has happened since the dying centuries of the Roman empire. In every single developed country, but also in China and Brazil, the birth rate is now well below the replacement rate of 2.2 live births per woman of reproductive age. Politically, this means that immigration will become an important—and highly divisive—issue in all rich countries. It will cut across all traditional political alignments. Economically, the decline in the young population will change markets in fundamental ways. Growth in family formation has been the driving force of all domestic markets in the developed world, but the rate of family formation is certain to fall steadily unless bolstered by large-scale immigration of younger people. The homogeneous mass market that emerged in all rich countries after the second world war has been youth-determined from the start. It will now become middle-age-determined, or perhaps more likely it will split into two: a middle-age-determined mass market and a much smaller youth-determined one. And because the supply of young people will shrink, creating new employment patterns to attract and hold the growing number of older people (especially older educated people) will become increasingly important.

Knowledge is all

The next society will be a knowledge society. Knowledge will be its key resource, and knowledge workers will be the dominant group in its workforce. Its three main characteristics will be:

•Borderlessness, because knowledge travels even more effortlessly than money.

•Upward mobility, available to everyone through easily acquired formal education.

•The potential for failure as well as success. Anyone can acquire the “means of production”, ie, the knowledge required for the job, but not everyone can win.

Together, those three characteristics will make the knowledge society a highly competitive one, for organisations and individuals alike. Information technology, although only one of many new features of the next society, is already having one hugely important effect: it is allowing knowledge to spread near-instantly, and making it accessible to everyone. Given the ease and speed at which information travels, every institution in the knowledge society—not only businesses, but also schools, universities, hospitals and increasingly government agencies too—has to be globally competitive, even though most organisations will continue to be local in their activities and in their markets. This is because the Internet will keep customers everywhere informed on what is available anywhere in the world, and at what price.

This new knowledge economy will rely heavily on knowledge workers. At present, this term is widely used to describe people with considerable theoretical knowledge and learning: doctors, lawyers, teachers, accountants, chemical engineers. But the most striking growth will be in “knowledge technologists”: computer technicians, software designers, analysts in clinical

Knowledge technologists are likely to become the dominant

labs, manufacturing technologists, paralegals. These people are as much manual workers as they are knowledge workers; in fact, they usually spend far more time working with their hands than with their brains. But their manual work is based on a substantial amount of theoretical knowledge which can be acquired only through formal education, not through an apprenticeship. They are not, as a rule, much better paid than traditional skilled workers, but they see themselves as “professionals”. Just as unskilled manual workers in manufacturing were the dominant social and political force in the 20th century, knowledge technologists are likely to become the dominant social—and perhaps also political—force over the next decades.

social—and perhaps also political—force over the next decades

The new protectionism

Structurally, too, the next society is already diverging from the society almost all of us still live in. The 20th century saw the rapid decline of the sector that had dominated society for 10,000 years: agriculture. In volume terms, farm production now is at least four or five times what it was before the first world war. But in 1913 farm products accounted for 70% of world trade, whereas now their share is at most 17%. In the early years of the 20th century, agriculture in most developed countries was the largest single contributor to GDP; now in rich countries its contribution has dwindled to the point of becoming marginal. And the farm population is down to a tiny proportion of the total.

Manufacturing has travelled a long way down the same road. Since the second world war, manufacturing output in the developed world has probably tripled in volume, but inflation-adjusted manufacturing prices have fallen steadily, whereas the cost of prime knowledge products—health care and education—has tripled, again adjusted for inflation. The relative purchasing power of manufactured goods against knowledge products is now only one-fifth or one-sixth of what it was 50 years ago. Manufacturing employment in America has fallen from 35% of the workforce in the 1950s to less than half that now, without causing much social disruption. But it may be too much to hope for an equally easy transition in countries such as Japan or Germany, where blue-collar manufacturing workers still make up 25-30% of the labour force.

The decline of farming as a producer of wealth and of livelihoods has allowed farm protectionism to spread to a degree that would have been unthinkable before the second world war. In the same way, the decline of manufacturing will trigger an explosion of manufacturing protectionism—even as lip service continues to be paid to free trade. This protectionism may not necessarily take the form of traditional tariffs, but of subsidies, quotas and regulations of all kinds. Even more likely, regional blocks will emerge that trade freely internally but are highly protectionist externally. The European Union, NAFTA and Mercosur already point in that direction.

The decline of manufacturing will trigger an explosion of manufacturing protectionism

The future of the corporation

Statistically, multinational companies play much the same part in the world economy as they did in 1913. But they have become very different animals. Multinationals in 1913 were domestic firms with subsidiaries abroad, each of them self-contained, in charge of a politically defined territory, and highly autonomous. Multinationals now tend to be organised globally along product or service lines. But like the multinationals of 1913, they are held together and controlled by ownership. By contrast, the multinationals of 2025 are likely to be held together and controlled by strategy. There will still be ownership, of course. But alliances, joint ventures, minority stakes, know-how agreements and contracts will increasingly be the building blocks of a confederation. This kind of organisation will need a new kind of top management.

In most countries, and even in a good many large and complex companies, top management is still seen as an extension of operating management. Tomorrow's top management, however, is likely to be a distinct and separate organ: it will stand for the company. One of the most important jobs ahead for the top management of the big company of tomorrow, and especially of the multinational, will be to balance the conflicting demands on business being made by the need for both short-term and long-term results, and by the corporation's various constituencies: customers, shareholders (especially institutional investors and pension funds), knowledge employees and communities.

Against that background, this survey will seek to answer two questions: what can and should

managements do now to be ready for the next society? And what other big changes may lie ahead of which we are as yet unaware?

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* Peter Drucker is a writer, teacher and consultant who has published 32 books, mostly on various aspects of society, economics, politics and management. Born in 1909 in Vienna, Mr Drucker was educated in Austria and England, and holds a doctorate from Frankfurt University. Since 1971 he has been Professor of Social Science and Management at Claremont Graduate University, California.

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The new demographics

Nov 1st 2001
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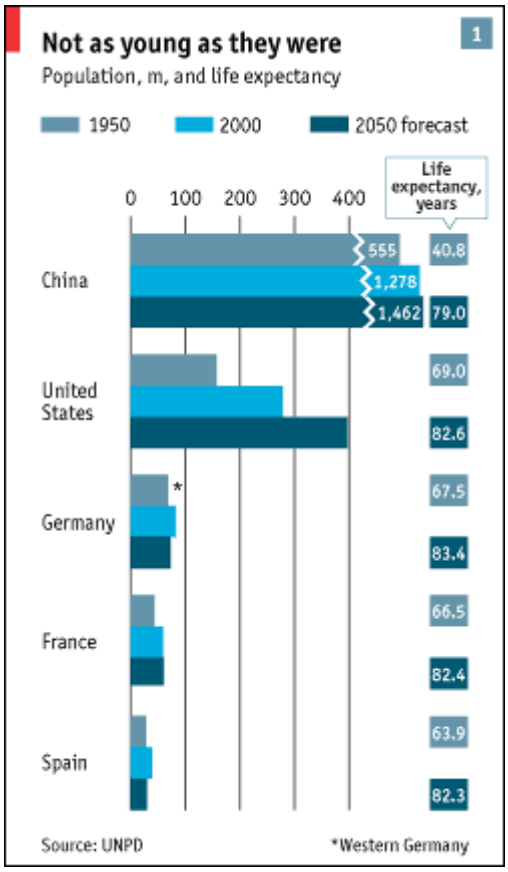
How to live with an ageing population

BY 2030, people over 65 in Germany, the world's third-largest economy, will account for almost half the adult population, compared with one-fifth now. And unless the country's birth rate recovers from its present low of 1.3 per woman, over the same period its population of under-35s will shrink about twice as fast as the older population will grow. The net result will be that the total population, now 82m, will decline to 70m-73m. The number of people of working age will fall by a full quarter, from 40m today to 30m.

The German demographics are far from exceptional. In Japan, the world's second-largest economy, the population will peak in 2005, at around 125m. By 2050, according to the more pessimistic government forecasts, the population will have shrunk to around 95m. Long before that, around 2030, the share of the over-65s in the adult population will have grown to about half. And the birth rate in Japan, as in Germany, is down to 1.3 per woman.

The figures are pretty much the same for most other developed countries—Italy, France, Spain, Portugal, the Netherlands, Sweden—and for a good many emerging ones, especially China. In some regions, such as central Italy, southern France or southern Spain, birth rates are even lower than in Germany or Japan.

Life expectancy—and with it the number of older people—has been going up steadily for 300 years. But the decline in the number of young people is something new. The only developed country that has so far avoided this fate is America. But even there the birth rate is well below replacement level, and the proportion of older people in the adult population will rise steeply in the next 30 years.



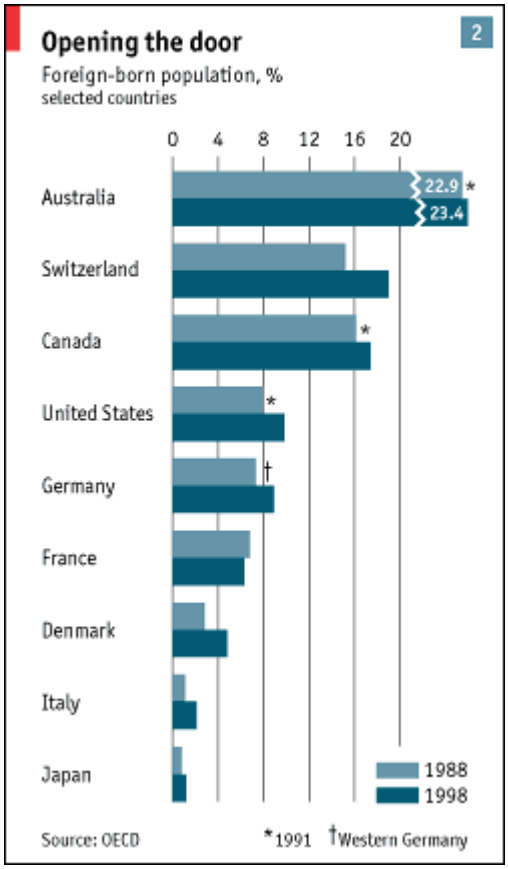
All this means that winning the support of older people will become a political imperative in every developed country. Pensions have already become a regular election issue. There is also a growing debate about the desirability of immigration to maintain the population and workforce. Together these two issues are transforming the political landscape in every developed country.

By 2030 at the latest, the age at which full retirement benefits start will have risen to the mid-70s in all developed countries, and benefits for healthy pensioners will be substantially lower than they are today. Indeed, fixed retirement ages for people in reasonable physical and mental condition may have been abolished to prevent the pensions burden on the working population from becoming unbearable. Already young and middle-aged people at work suspect that there will not be enough pension money to go round when they themselves reach traditional retirement age. But politicians everywhere continue to pretend that they can save the current pensions system.

Needed but unwanted

Immigration is certain to be an even hotter issue. The respected DIW research institute in Berlin estimates that by 2020 Germany will have to import 1m immigrants of working age each year simply to maintain its workforce. Other rich European countries are in the same boat. And in Japan there is talk of admitting 500,000 Koreans each year—and sending them home five years later. For all big countries but America, immigration on such a scale is unprecedented.

The political implications are already being felt. In 1999 fellow Europeans were shocked by the electoral success in Austria of a xenophobic right-wing party whose main plank is “no immigration”. Similar movements are growing in Flemish-speaking Belgium, in traditionally liberal Denmark and in northern Italy. Even in America, immigration is upsetting long-established political alignments. American trade unions' opposition to large-scale immigration has put them in the anti-globalisation camp that organised violent protests during the Seattle meeting of the World Trade Organisation in 1999. A future Democratic candidate for the American presidency may have to choose between getting the union vote by opposing immigration, or getting the vote of Latinos and other newcomers by supporting it. Equally, a future Republican candidate may have to choose between the support of business, which is clamouring for workers, and the vote of a white middle class that increasingly opposes immigration.



Even so, America's experience of immigration should give it a lead in the developed world for several decades to come. Since the 1970s it has been admitting large numbers of immigrants, either legally or illegally. Most immigrants are young, and the birth rates of first-generation immigrant women tend to be higher than those of their adopted country. This means that for the next 30 or 40 years America's population will continue to grow, albeit slowly, whereas in some other developed countries it will fall.

A country of immigrants

But it is not numbers alone that will give America an advantage. Even more important, the country is culturally attuned to immigration, and long ago learned to integrate immigrants into its society and economy. In fact, recent immigrants, whether Hispanics or Asians, may be integrating faster than ever. One-third of all recent Hispanic immigrants, for instance, are reported to be marrying non-Hispanics and non-immigrants. The one big obstacle to the full integration of recent immigrants in America is the poor performance of American public schools.

Among developed countries, only Australia and Canada have a tradition of immigration similar to America's. Japan has resolutely kept foreigners out, except for a spate of Korean immigrants in the 1920s and 1930s, whose descendants are still being discriminated against. The mass migrations of the 19th century were either into empty, unsettled spaces (such as the United States, Canada, Australia, Brazil), or from farm to city within the same country. By contrast, immigration in the 21st century is by foreigners—in nationality, language, culture and religion—who move into settled countries. European countries have so far been less than successful at integrating such foreigners.

The biggest effect of the demographic changes may be to split hitherto homogeneous societies and markets. Until the 1920s or 30s, every country had a diversity of cultures and markets. They were sharply differentiated by class, occupation and residence, eg, “the farm market” or “the carriage trade”, both of which disappeared some time between 1920 and 1940. Yet since the second world war, all developed countries have had only one mass culture and one mass market. Now that demographic forces in all the developed countries are pulling in opposite directions, will that homogeneity survive?

Since the second world war, all developed countries have had only one mass culture and one mass market

The markets of the developed world have been dominated by the values, habits and preferences of the young population. Some of the most successful and most profitable businesses of the past half-century, such as Coca-Cola and Procter & Gamble in America, Unilever in Britain and Henkel in Germany, owe their prosperity in large measure to the growth of the young population and to the high rate of family formation between 1950 and 2000. The same is true of the car industry over that period.

The end of the single market

Now there are signs that the market is splitting. In financial services, perhaps America's fastest-growing industry over the past 25 years, it has split already. The bubble market of the 1990s, with its frantic day-trading in high-tech stocks, belonged mainly to the under-45s. But the customers in the markets for investments, such as mutual funds or deferred annuities, tend to be over 50, and that market has also been growing apace. The fastest-growing industry in any developed country may turn out to be the continuing education of already well-educated adults, which is based on values that are all but incompatible with those of the youth culture.

But it is also conceivable that some youth markets will become exceedingly lucrative. In the coastal cities of China, where the government was able to enforce its one-child policy, middle-class families are now reported to spend more on their one child than earlier middle-class families spent on their four or five children together. This seems to be true in Japan too. Many American middle-class families are spending heavily on the education of their single child, mainly by moving into expensive suburban neighbourhoods with good schools. But this new luxury youth market is quite different from the homogeneous mass market of the past 50 years. That mass market is rapidly weakening because of the decline in the numbers of young people reaching adulthood.

In future there will almost certainly be two distinct workforces, broadly made up of the under-50s and the over-50s respectively. These two workforces are likely to differ markedly in their needs and behaviour, and in the jobs they do. The younger group will need a steady income from a permanent job, or at least a succession of full-time jobs. The rapidly growing older group will have much more choice, and will be able to combine traditional jobs, non-conventional jobs and leisure in whatever proportion suits them best.

In future there will almost certainly be two workforces, broadly made up of the under-50s and the over-50s

The split into two workforces is likely to start with female knowledge technologists. A nurse, a computer technologist or a paralegal can take 15 years out to look after her children and then return to full-time work. Women, who now outnumber men in American higher education, increasingly look for work in the new knowledge technologies. Such jobs are the first in human history to be well adapted to the special needs of women as childbearers, and to their increasing longevity. That longevity is one of the reasons for the split in the job market. A 50-year working life—unprecedented in human history—is simply too long for one kind of work.

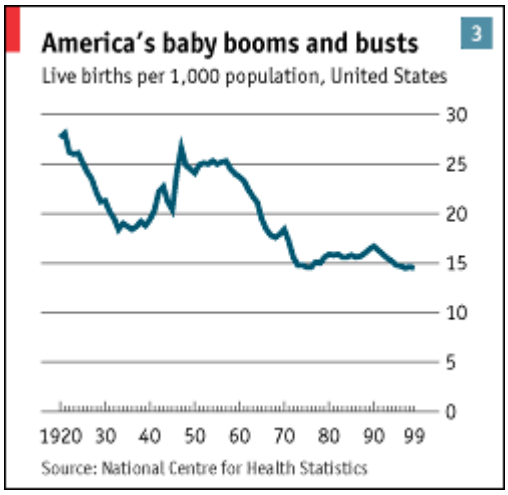
The second reason for the split is a shrinking life expectancy for businesses and organisations of all kinds. In the past, employing organisations have outlived employees. In future, employees, and especially knowledge workers, will increasingly outlive even successful organisations. Few businesses, or even government agencies or programmes, last for more than 30 years. Historically, the working lifespan of most employees has been less than 30 years because most manual workers simply wore out. But knowledge workers who enter the labour force in their 20s are likely to be still in good physical and mental shape 50 years later.

“Second career” and “second half of one's life” have already become buzzwords in America. Increasingly, employees there take early retirement as soon as their pension and Social Security (state retirement benefit) rights are guaranteed for the time when they reach traditional retirement age; but they do not stop working. Instead, their “second career” often takes an unconventional form. They may work freelance (and often forget to tell the taxman about their work, thus boosting their net income), or part-time, or as “temporaries”, or for an outsourcing contractor, or as contractors themselves. Such “early retirement to keep on working” is particularly common among knowledge workers, who are still a minority among people now reaching 50 or 55, but will become the largest single group of older people in America from about 2030.

Beware demographic changes

Population predictions for the next 20 years can be made with some certainty because almost everybody who will be in the workforce in 2020 is already alive. But, as American experience in the past couple of decades has shown, demographic trends can change quite suddenly and unpredictably, with fairly immediate effects. The American baby boom of the late 1940s, for instance, triggered the housing boom of the 1950s.

In the mid-1920s America had its first “baby bust”. Between 1925 and 1935 the birth rate declined by almost half, dipping below the replacement rate of 2.2 live births per woman. In the late 1930s, President Roosevelt's Commission on American Population (consisting of the country's most eminent demographers and statisticians) confidently predicted that America's population would peak in 1945 and would then start declining. But an exploding birth rate in the late 1940s proved it wrong. Within ten years, the number of live births per woman doubled from 1.8 to 3.6. Between 1947 and 1957, America experienced an astonishing “baby boom”. The number of babies born rose from 2.5m to 4.1m.



Then, in 1960-61, the opposite happened. Instead of the expected second-wave baby boom as the first boomers reached adulthood, there was a big bust. Between 1961 and 1975, the birth rate fell from 3.7 to 1.8. The number of babies born went down from 4.3m in 1960 to 3.1m in 1975. The next surprise was the “baby boom echo” in the late 1980s and early 1990s. The number of live births went up quite sharply, surpassing even the numbers of the first baby boom's peak years. With the benefit of hindsight, it is now clear that this echo was triggered by large-scale immigration into America, beginning in the early 1970s. When the girls born to these early immigrants started having children of their own in the late 1980s, their birth rates were still closer to those of their parents' country of origin than to those of their adopted country. Fully one-fifth of all children of school age in California in the first decade of this century have at least one foreign-born parent.

But nobody knows what caused the two baby busts, or the baby boom of the 1940s. Both busts occurred when the economy was doing well, which in theory should have encouraged people to have lots of children. And the baby boom should never have happened, because historically birth rates have always gone down after a big war. The truth is that we simply do not understand what determines birth rates in modern societies. So demographics will not only be the most important factor in the next society, it will also be the least predictable and least controllable one.

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The new workforce

Nov 1st 2001
From The Economist print edition

Knowledge workers are the new capitalists

A CENTURY ago, the overwhelming majority of people in developed countries worked with their hands: on farms, in domestic service, in small craft shops and (at that time still a small minority) in factories. Fifty years later, the proportion of manual workers in the American labour force had dropped to around half, and factory workers had become the largest single section of the workforce, making up 35% of the total. Now, another 50 years later, fewer than a quarter of American workers make their living from manual jobs. Factory workers still account for the majority of the manual workers, but their share of the total workforce is down to around 15%—more or less back to what it had been 100 years earlier.

Of all the big developed countries, America now has the smallest proportion of factory workers in its labour force. Britain is not far behind. In Japan and Germany, their share is still around a quarter, but it is shrinking steadily. To some extent this is a matter of definition. Data-processing employees of a manufacturing firm, such as the Ford Motor Company, are counted as employed in manufacturing, but when Ford outsources its data processing, the same people doing exactly the same work are instantly redefined as service workers. However, too much should not be made of this. Many studies in manufacturing businesses have shown that the decline in the number of people who actually work in the plant is roughly the same as the shrinkage reported in the national figures.

Before the first world war there was not even a word for people who made their living other than by manual work. The term "service worker" was coined around 1920, but it has turned out to be rather misleading. These days, fewer than half of all non-manual workers are actually service workers. The only fast-growing group in the workforce, in America and in every other developed country, are "knowledge workers"—people whose jobs require formal and advanced schooling. They now account for a full third of the American workforce, outnumbering factory workers by two to one. In another 20 years or so, they are likely to make up close to two-fifths of the workforce of all rich countries.

Brain, not brawn 4

Distribution of total employment, United States by occupation, %

	1988	1998	2008*
Executive and managerial	10.3	10.5	10.7
Professional	12.5	14.1	15.6
Technicians	3.2	3.5	3.8
Marketing/sales	10.3	10.9	11.0
Administrative support	18.5	17.4	16.6
Services	15.5	16.0	16.4
Agriculture	3.5	3.2	2.8
Production, craft and repair	11.9	11.1	10.5
Operators, fabricators and labourers	14.2	13.2	12.7

Source: US Bureau of Labour Statistics *Forecast

The terms "knowledge industries", "knowledge work" and "knowledge worker" are only 40 years old. They were coined around 1960, simultaneously but independently; the first by a Princeton economist, Fritz Machlup, the second and third by this writer. Now everyone uses them, but as yet hardly anyone understands their implications for human values and human behaviour, for managing people and making them productive, for economics and for politics. What is already clear, however, is that the emerging knowledge society and knowledge economy will be radically different from the society and economy of the late 20th century, in the following ways.

First, the knowledge workers, collectively, are the new capitalists. Knowledge has become the key resource, and the only scarce one. This means that knowledge workers collectively own the means of production. But as a group, they are also capitalists in the old sense: through their stakes in pension funds and mutual funds, they have become majority shareholders and owners of many large businesses in the knowledge society.

The knowledge society is a society of seniors

Effective knowledge is specialised. That means knowledge workers need access to an organisation—a collective that brings together an array of knowledge workers and applies their specialisms to a common end-product. The most gifted mathematics teacher in a secondary school is effective only as a member of the faculty. The most brilliant consultant on product development is effective

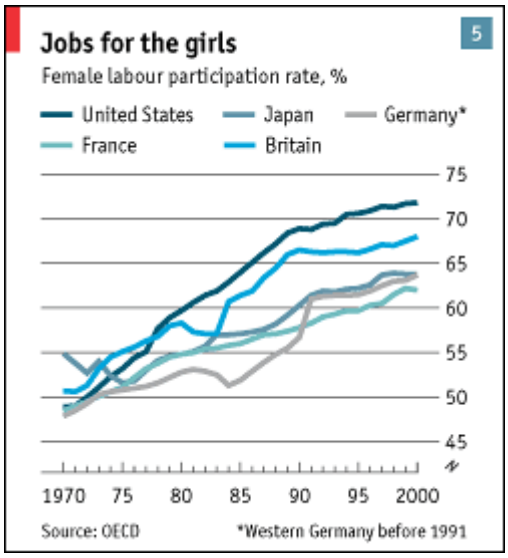
only if there is an organised and competent business to convert her advice into action. The greatest software designer needs a hardware producer. But in turn the high school needs the mathematics teacher, the business needs the expert on product development, and the PC manufacturer needs the software programmer. Knowledge workers therefore see themselves as equal to those who retain their services, as “professionals” rather than as “employees”. The knowledge society is a society of seniors and juniors rather than of bosses and subordinates.

and juniors rather than of bosses and subordinates

His and hers

All this has important implications for the role of women in the labour force. Historically women's participation in the world of work has always equalled men's. The lady of leisure sitting in her parlour was the rarest of exceptions even in a wealthy 19th-century society. A farm, a craftsman's business or a small shop had to be run by a couple to be viable. As late as the beginning of the 20th century, a doctor could not start a practice until he had got married; he needed a wife to make appointments, open the door, take patients' histories and send out the bills.

But although women have always worked, since time immemorial the jobs they have done have been different from men's. There was men's work and there was women's work. Countless women in the Bible go to the well to fetch water, but not one man. There never was a male spinster. Knowledge work, on the other hand, is “unisex”, not because of feminist pressure but because it can be done equally well by both sexes. That said, the first modern knowledge jobs were designed for only one or the other sex. Teaching as a profession was invented in 1794, the year the Ecole Normale was founded in Paris, and was seen strictly as a man's job. Sixty years later, during the Crimean war of 1853-56, Florence Nightingale founded the second new knowledge profession, nursing. This was considered as exclusively women's work. But by 1850 teaching everywhere had become unisex, and in 2000 two-fifths of America's students at nursing school were men.



There were no women doctors in Europe until the 1890s. But one of the earliest European women to get a medical doctorate, the great Italian educator Maria Montessori, reportedly said: “I am not a woman doctor; I am a doctor who happens to be a woman.” The same logic applies to all knowledge work. Knowledge workers, whatever their sex, are professionals, applying the same knowledge, doing the same work, governed by the same standards and judged by the same results.

High-knowledge workers such as doctors, lawyers, scientists, clerics and teachers have been around for a long time, although their number has increased exponentially in the past 100 years. The largest group of knowledge workers, however, barely existed until the start of the 20th century, and took off only after the second world war. They are knowledge technologists—people who do much of their work with their hands (and to that extent are the successors to skilled workers), but whose pay is determined by the knowledge between their ears, acquired in formal education rather than through apprenticeship. They include X-ray technicians, physiotherapists, ultrasound specialists, psychiatric case workers, dental technicians and scores of others. In the past 30 years, medical technologists have been the fastest-growing segment of the labour force in America, and probably in Britain as well.

In the next 20 or 30 years the number of knowledge technologists in computers, manufacturing and education is likely to grow even faster. Office technologists such as paralegals are also proliferating. And it is no accident that yesterday's “secretary” is rapidly turning into an “assistant”, having become the manager of the boss's office and of his work. Within two or three decades, knowledge technologists will become the dominant group in the workforce in all developed countries, occupying the same position that unionised factory workers held at the peak of their power in the 1950s and 60s.

The most important thing about these knowledge workers is that they do not identify themselves as “workers” but as “professionals”. Many of them spend a good deal of their time doing largely unskilled work, eg, straightening out patients' beds, answering the telephone or filing. However, what identifies them in their own and in the public's mind is that part of their job involves putting their formal

knowledge to work. That makes them full-fledged knowledge workers.

Such workers have two main needs: formal education that enables them to enter knowledge work in the first place, and continuing education throughout their working lives to keep their knowledge up to date. For the old high-knowledge professionals such as doctors, clerics and lawyers, formal education has been available for many centuries. But for knowledge technologists, only a few countries so far provide systematic and organised preparation. Over the next few decades, educational institutions to prepare knowledge technologists will grow rapidly in all developed and emerging countries, just as new institutions to meet new requirements have always appeared in the past. What is different this time is the need for the continuing education of already well-trained and highly knowledgeable adults. Schooling traditionally stopped when work began. In the knowledge society it never stops.

Knowledge is unlike traditional skills, which change very slowly. A museum near Barcelona in Spain contains a vast number of the hand tools used by the skilled craftsmen of the late Roman empire which any craftsman today would instantly recognise, because they are very similar to the tools still in use. For the purposes of skill training, therefore, it was reasonable to assume that whatever had been learned by age 17 or 18 would last for a lifetime.

Conversely, knowledge rapidly becomes obsolete, and knowledge workers regularly have to go back to school. Continuing education of already highly educated adults will therefore become a big growth area in the next society. But most of it will be delivered in non-traditional ways, ranging from weekend seminars to online training programmes, and in any number of places, from a traditional university to the student's home. The information revolution, which is expected to have an enormous impact on education and on traditional schools and universities, will probably have an even greater effect on the continuing education of knowledge workers.

Everybody's doing it 6

% of total population enrolled in tertiary education selected countries

	1970	1996	% female 1996
Brazil	0.44	1.17	*52.9**
Britain	1.08	3.25	*51.8*
China	0.01	0.49†	*33.3‡*
France	1.58	3.54	*54.9*
India	0.44	0.65†	*36.2*
Indonesia	0.20	1.16§	*34.8§*
Iran	0.26	0.91†	*38.1‡*
Israel	1.86	3.59	*51.3***
Mexico	0.49	1.76	*47.7*
South Africa	0.37	1.49*	*48.0**
South Korea	0.63	5.65	*36.9*
Turkey	0.48	2.35	*35.1*
United States	4.14	5.37†	*55.1§*

*1994 †1997 ‡1993 §1995 **1992

Sources: UNESCO; UNPD

Knowledge workers of all kinds tend to identify themselves with their knowledge. They introduce themselves by saying “I am an anthropologist” or “I am a physiotherapist.” They may be proud of the organisation they work for, be it a company, a university or a government agency, but they “work at the organisation”; they do not “belong to it”. Most of them probably feel that they have more in common with someone who practices the same specialism in another institution than with their colleagues at their own institution who work in a different knowledge area.

Although the emergence of knowledge as an important resource increasingly means specialisation, knowledge workers are highly mobile within their specialism. They think nothing of moving from one university, one company or one country to another, as long as they stay within the same field of knowledge. There is a lot of talk about trying to restore knowledge workers' loyalty to their employing organisation, but such efforts will get nowhere. Knowledge workers may have an attachment to an organisation and feel comfortable with it, but their primary allegiance is likely to be to their specialised branch of knowledge.

Knowledge is non-hierarchical. Either it is relevant in a given situation, or it is not. An open-heart surgeon may be much better paid than, say, a speech therapist, and enjoy a much higher social status, yet if a particular situation requires the rehabilitation of a stroke victim, then in that instance the speech therapist's knowledge is greatly superior to that of the surgeon. This is why knowledge workers of all kinds see themselves not as subordinates but as professionals, and expect to be treated as such.

Money is as important to knowledge workers as to anybody else, but they do not accept it as the ultimate yardstick, nor do they consider money as a substitute for professional performance and achievement. In sharp contrast to yesterday's workers, to whom a job was first of all a living, most knowledge workers see their job as a life.

Ever upwards

The knowledge society is the first human society where upward mobility is potentially unlimited.

Knowledge differs from all other means of production in that it cannot be inherited or bequeathed. It has to be acquired anew by every individual, and everyone starts out with the same total ignorance.

Knowledge has to be put in a form in which it can be taught, which means it has to become public. It is always universally accessible, or quickly becomes so. All this makes the knowledge society a highly mobile one. Anyone can acquire any knowledge at a school, through a codified learning process, rather than by serving as an apprentice to a master.

Until 1850 or perhaps even 1900, there was little mobility in any society. The Indian caste system, in which birth determines not only an individual's status in society but his occupation as well, was only an extreme case. In most other societies too, if the father was a peasant, the son was a peasant, and the daughters married peasants. By and large, the only mobility was downward, caused by war or disease, personal misfortune or bad habits such as drinking or gambling.

Even in America, the land of unlimited opportunities, there was far less upward mobility than is commonly believed. The great majority of professionals and managers in America in the first half of the 20th century were still the children of professionals and managers rather than the children of farmers, small shopkeepers or factory workers. What distinguished America was not the amount of upward mobility but, in sharp contrast to most European countries, the way it was welcomed, encouraged and cherished.

The knowledge society takes this approval of upward mobility much further: it considers every impediment to such mobility a form of discrimination. This implies that everybody is now expected to be a “success”—an idea that would have seemed ludicrous to earlier generations. Naturally, only a tiny number of people can be outstanding successes; but a very large number are expected to be adequately successful.

In 1958 John Kenneth Galbraith first wrote about “The Affluent Society”. This was not a society with many more rich people, or in which the rich were richer, but one in which the majority could feel financially secure. In the knowledge society, a large number of people, perhaps even a majority, have something even more important than financial security: social standing, or “social affluence”.

The price of success

The upward mobility of the knowledge society, however, comes at a high price: the psychological pressures and emotional traumas of the rat race. There can be winners only if there are losers. This was not true of earlier societies. The son of the landless labourer who became a landless labourer himself was not a failure. In the knowledge society, however, he is not only a personal failure but a failure of society as well.

Japanese youngsters suffer sleep deprivation because they spend their evenings at a crammer to help them pass their exams. Otherwise they will not get into the prestige university of their choice, and thus into a good job. These pressures create hostility to learning. They also threaten to undermine Japan's prized economic equality and turn the country into a plutocracy, because only well-off parents can afford the prohibitive cost of preparing their youngsters for university. Other countries, such as America, Britain and France, are also allowing their schools to become viciously competitive. That this has happened over such a short time—no more than 30 or 40 years—indicates how much the fear of failure has already permeated the knowledge society.

Given this competitive struggle, a growing number of highly successful knowledge workers of both sexes—business managers, university teachers, museum directors, doctors—“plateau” in their 40s. They know they have achieved all they will achieve. If their work is all they have, they are in trouble. Knowledge workers therefore need to develop, preferably while they are still young, a non-competitive life and community of their own, and some serious outside interest—be it working as a volunteer in the community, playing in a local orchestra or taking an active part in a small town's local government. This outside interest will give them the opportunity for personal contribution and achievement.

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The manufacturing paradox

Nov 1st 2001
From The Economist print edition

How do you get far more output with far fewer workers?

IN THE closing years of the 20th century, the world price of the steel industry's biggest single product—hot rolled coil, the steel for car bodies—plunged from $460 to $260 a ton. Yet these were boom years in America and prosperous times in most of continental Europe, with automobile production setting records. The steel industry's experience is typical of manufacturing as a whole. Between 1960 and 1999, both manufacturing's share in America's GDP and its share of total employment roughly halved, to around the 15% mark. Yet in the same 40 years manufacturing's physical output doubled or tripled. In 1960, manufacturing was the centre of the American economy, and of the economies of all other developed countries. By 2000, as a contributor to GDP it was easily outranked by the financial sector .

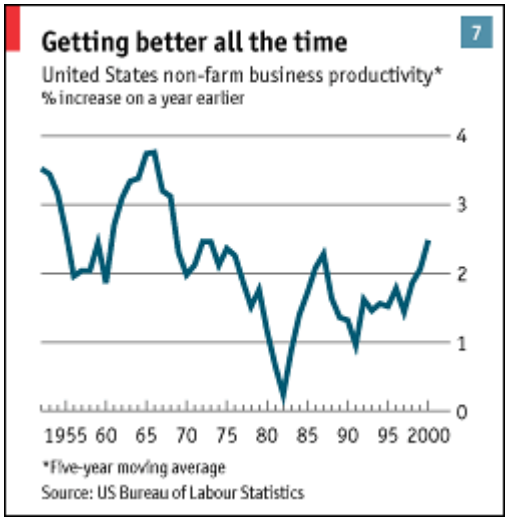
The relative purchasing power of manufactured goods (what economists call the terms of trade) has fallen by three-quarters in the past 40 years. Whereas manufacturing prices, adjusted for inflation, are down by 40%, the prices of the two main knowledge products, health care and education, have risen about three times as fast as inflation. In 2000, therefore, it took five times as many units of manufactured goods to buy the main knowledge products as it had done 40 years earlier.

The purchasing power of workers in manufacturing has also gone down, although by much less than that of their products. Their productivity has risen so sharply that most of their real income has been preserved. Forty years ago, labour costs in manufacturing typically accounted for around 30% of total manufacturing costs; now they are generally down to 12-15%. Even in the car industry, still the most labour-intensive of the engineering branches, labour costs in the most advanced plants are no higher than 20%. Manufacturing workers, especially in America, have ceased to be the backbone of the consumer market. At the height of the crisis in America's “rust belt”, when employment in the big manufacturing centres was ruthlessly slashed, national sales of consumer goods barely budged.

What has changed manufacturing, and sharply pushed up productivity, are new concepts. Information and automation are less important than new theories of manufacturing, which are an advance comparable to the arrival of mass production 80 years ago. Indeed, some of these theories, such as Toyota's “lean manufacturing”, do away with robots, computers and automation. One highly publicised example involved replacing one of Toyota's automated and computerised paint-drying lines by half a dozen hairdryers bought in a supermarket.

Manufacturing is following exactly the same path that farming trod earlier. Beginning in 1920, and accelerating after the second world war, farm production shot up in all developed countries. Before the first world war, many Western European countries had to import

farm products. Now there is only one net farm importer left: Japan. Every single European country now has large and increasingly unsaleable farm surpluses. In quantitative terms, farm production in most developed countries today is probably at least four times what it was in 1920 and three times what it was in 1950 (except in Japan). But whereas at the beginning of the 20th century farmers made up the largest single group in the working population in most developed countries, now they account for no more than 3% in any developed country. And whereas at the beginning of the 20th century agriculture was the largest single contributor to national income in most developed countries, in 2000 in America it contributed less than 2% to GDP.



Manufacturing is unlikely to expand its output in volume terms as much as agriculture did, or to shrink as much as a producer of wealth and of jobs. But the most believable forecast for 2020 suggests that manufacturing output in the developed countries will at least double, while manufacturing employment will shrink to 10-12% of the total workforce.

In America, the transition has largely been accomplished already, and with a minimum of dislocation. The only hard-hit group have been African Americans, to whom the growth in manufacturing jobs after the second world war offered quick economic advancement, and whose jobs have now largely gone. But by and large, even in places that relied heavily on a few large manufacturing plants, unemployment remained high only for a short time. Even the political impact in America has been minimal.

But will other industrial countries have an equally easy passage? In Britain, manufacturing employment has already fallen quite sharply without causing any unrest, although it seems to have produced social and psychological problems. But what will happen in countries such as Germany or France, where labour markets remain rigid and where, until very recently, there has been little upward mobility through education? These countries already have substantial and seemingly intractable unemployment, eg, in Germany's Ruhr and in France's old industrial area around Lille. They may face a painful transition period with severe social upheavals.

The biggest question mark is over Japan. To be sure, it has no working-class culture, and it has long appreciated the value of education as an instrument of upward mobility. But Japan's social stability is based on employment security, especially for blue-collar workers in big manufacturing industry, and that is eroding fast. Yet before employment security was introduced for blue-collar workers in the 1950s, Japan had been a country of extreme labour turbulence. Manufacturing's share of total employment is still higher than in almost any other developed country—around a quarter of the total—and Japan has practically no labour market and little labour mobility.

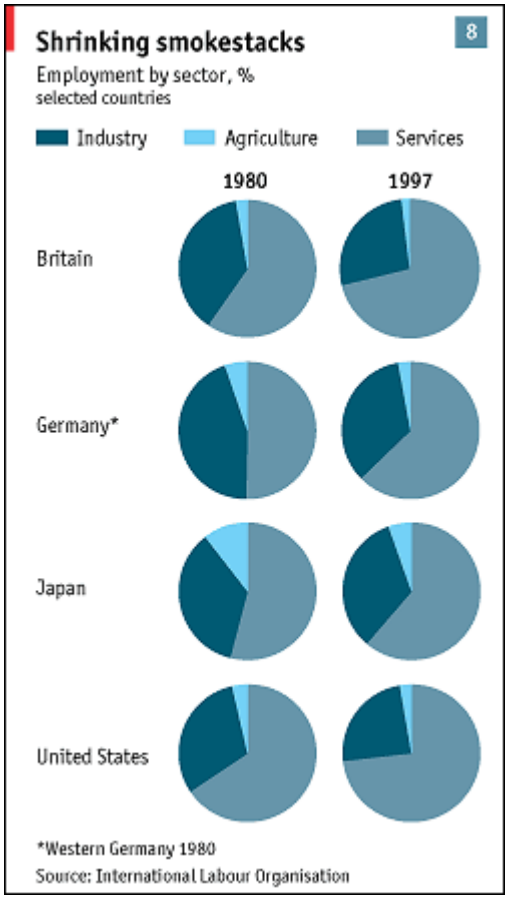
The decline in manufacturing as the key to economic success confronts Japan with one of the biggest challenges ever

Psychologically, too, the country is least prepared for the decline in manufacturing. After all, it owed its rise to great-economic-power status in the second half of the 20th century to becoming the world's manufacturing virtuoso. One should never underrate the Japanese. Throughout their history they have shown unparalleled ability to face up to reality and to change practically overnight. But the decline in manufacturing as the key to economic success confronts Japan with one of the biggest challenges ever.

The decline of manufacturing as a producer of wealth and jobs changes the world's economic, social and political landscape. It makes “economic miracles” increasingly difficult for developing countries to achieve. The economic miracles of the second half of the 20th century—Japan, South Korea, Taiwan, Hong Kong, Singapore—were based on exports to the world's rich countries of manufactured goods that were produced with developed-country technology and productivity but with emerging-country labour costs. This will no longer work. One way to generate economic development may be to integrate the economy of an emerging country into a developed region—which is what Vicente Fox, the new Mexican president, envisages with his proposal for total integration of “North America”, ie, the United States, Canada and Mexico. Economically this makes a lot of sense, but politically it is almost unthinkable. The alternative—which is being pursued by China—is to try to achieve economic growth by building up a developing country's domestic market. India, Brazil and Mexico also have large enough populations to make home-market-based economic development feasible, at least in theory. But will smaller countries, such as Paraguay or Thailand, be allowed to export to the large markets of emerging countries such as Brazil?

The decline in manufacturing as a creator of wealth and jobs will inevitably bring about a new protectionism, once again echoing what happened earlier in agriculture. For every 1% by which agricultural prices and employment have fallen in the 20th century, agricultural subsidies and protection in every single developed country, including America, have gone up by at least 1%, often more. And the fewer farm voters there are, the more important the “farm vote” has become. As numbers have shrunk, farmers have become a unified special-interest group that carries disproportionate clout in all rich countries.

Protectionism in manufacturing is already in evidence, although it tends to take the form of subsidies instead of traditional tariffs. The new regional economic blocks, such as the European Union, NAFTA or Mercosur, do create large regional markets with lower internal barriers, but they protect them with higher barriers against producers outside the region. And non-tariff barriers of all kinds are steadily growing. In the same week in which the 40% decline in sheet-steel prices was announced in the American press, the American government banned sheet-steel imports as “dumping”. And no matter how laudable their aims, the developed countries' insistence on fair labour laws and adequate environmental rules for manufacturers in the developing world acts as a mighty barrier to imports from these countries.



Smaller numbers, bigger clout

Politically, too, manufacturing is becoming more influential the fewer manufacturing workers there are, especially in America. In last year's presidential election the labour vote was more important than it had been 40 or 50 years earlier, precisely because the number of trade-union members has become so much smaller as a percentage of the voting population. Feeling endangered, they have closed ranks. A few decades ago, a substantial minority of American union members voted Republican, but in last year's election more than 90% of union members are thought to have voted Democrat (though their candidate still lost).

Most people have great difficulty in accepting that society and economy are no longer dominated by manual work

For over 100 years, America's trade unions have been strong supporters of free trade, at least in their rhetoric, but in the past few years they have become staunchly protectionist and declared enemies of “globalisation”. No matter that the real threat to manufacturing jobs is not competition from abroad, but the rapid decline of manufacturing as a creator of work: it is simply incomprehensible that manufacturing production can go up while manufacturing jobs go down, and not only to trade unionists but also to politicians, journalists, economists and the public at large. Most people continue to believe that when manufacturing jobs decline, the country's manufacturing base is threatened and has to be protected. They have great difficulty in accepting that, for the first time in history, society and economy are no longer dominated by manual work, and a country can feed, house and clothe itself with only a small minority of its population engaged in such work.

The new protectionism is driven as much by nostalgia and deep-seated emotion as by economic self-interest and political power. Yet it will achieve nothing, because “protecting” ageing industries does not work. That is the clear lesson of 70 years of farm subsidies. The old crops—corn (maize), wheat, cotton—into which America has pumped countless billions since the 1930s—have all done poorly, whereas

unprotected and unsubsidised new crops—such as soya beans—have flourished. The lesson is clear: policies that pay old industries to hold on to redundant people can only do harm. Whatever money is being spent should instead go on subsidising older laid-off workers, and retraining and redeploying younger ones.

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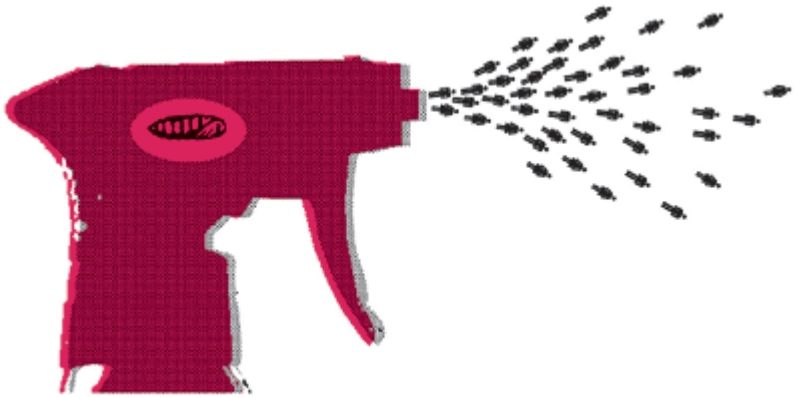
Will the corporation survive?

Nov 1st 2001
From The Economist print edition



Yes, but not as we know it

FOR most of the time since the corporation was invented around 1870, the following five basic points have been assumed to apply:

•The corporation is the “master”, the employee is the “servant”. Because the corporation owns the means of production without which the employee could not make a living, the employee needs the corporation more than vice versa.

•The great majority of employees work full-time for the corporation. The pay they get for the job is their only income and provides their livelihood.

•The most efficient way to produce anything is to bring together under one management as many as possible of the activities needed to turn out the product.

The theory underlying this was not developed until after the second world war, by Ronald Coase, an Anglo-American economist, who argued that bringing together activities into one company lowers “transactional costs”, and especially the cost of communications (for which theory he received the 1991 Nobel prize in economics). But the concept itself was discovered and put into practice 70 or 80 years earlier by John D. Rockefeller. He saw that to put exploration, production, transport, refining and selling into one corporate structure resulted in the most efficient and lowest-cost petroleum operation. On this insight he built the Standard Oil Trust, probably the most profitable large enterprise in business history. The concept was carried to an extreme by Henry Ford in the early 1920s. The Ford Motor Company not only produced all parts of the automobile and assembled it, but it also made its own steel, its own glass and its own tyres. It owned the plantations in the Amazon that grew the rubber trees, owned and ran the railroad that carried supplies to the plant and carried the finished cars from it, and planned eventually to sell and service Ford cars too (though it never did).

•Suppliers and especially manufacturers have market power because they have information about a product or a service that the customer does not and cannot have, and does not need if he can trust the brand. This explains the profitability of brands.

•To any one particular technology pertains one and only one industry, and conversely, to any one particular industry pertains one and only one technology. This means that all technology needed to make steel is peculiar to the steel industry; and conversely, that whatever technology is being used to make steel comes out of the steel industry itself. The same applies to the paper industry, to agriculture or to banking and commerce.

On this assumption were founded the industrial research labs, beginning with Siemens's, started in Germany in 1869, and ending with IBM's, the last of the great traditional labs, founded in America in 1952. Each of them concentrated on the technology needed for a single industry, and each assumed that its discoveries would be applied only in that industry.

Everything in its place

Similarly, everybody took it for granted that every product or service had a specific application, and that for every application there was a specific product or material. So beer and milk were sold only in glass bottles; car bodies were made only from steel; working capital for a business was supplied by a commercial bank through a commercial loan; and so on. Competition therefore took place mainly within an industry. By and large, it was obvious what the business of a given company was and what its markets were.

Every one of these assumptions remained valid for a whole century, but from 1970 onwards every one of them has been turned upside down. The list now reads as follows:

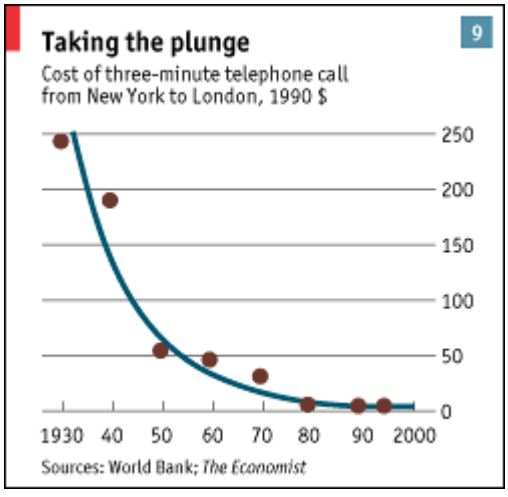
•The means of production is knowledge, which is owned by knowledge workers and is highly portable. This applies equally to high-knowledge workers such as research scientists and to knowledge technologists such as physiotherapists, computer technicians and paralegals. Knowledge workers provide “capital” just as much as does the provider of money. The two are dependent on each other. This makes the knowledge worker an equal—an associate or a partner.

•Many employees, perhaps a majority, will still have full-time jobs with a salary that provides their only or main income. But a growing number of people who work for an organisation will not be full-time employees but part-timers, temporaries, consultants or contractors. Even of those who do have a full-time job, a large and growing number may not be employees of the organisation for which they work, but employees of, eg, an outsourcing contractor.

•There always were limits to the importance of transactional costs. Henry Ford's all-inclusive Ford Motor Company proved unmanageable and became a disaster. But now the traditional axiom that an enterprise should aim for maximum integration has become almost entirely invalidated. One reason is that the knowledge needed for any activity has become highly specialised. It is therefore increasingly expensive, and also increasingly difficult, to maintain enough critical mass for every major task within an enterprise. And because knowledge rapidly deteriorates unless it is used constantly, maintaining within an organisation an activity that is used only intermittently guarantees incompetence.

The second reason why maximum integration is no longer needed is that communications costs have come down so fast as to become insignificant. This decline began well before the information revolution. Perhaps its biggest cause has been the growth and spread of business literacy. When Rockefeller built his Standard Oil Trust, he had great difficulty finding people who knew even the most elementary book-keeping or had heard of the most common business terms. At the time there were no business textbooks or business courses, so the transactional costs of making oneself understood were extremely high. Sixty years later, by 1950 or 1960, the large oil companies that succeeded the Standard Oil Trust could confidently assume that their more senior employees were business literate.

By now the new information technology—Internet and e-mail—have practically eliminated the physical costs of communications. This has meant that the most productive and most profitable way to organise is to disintegrate. This is being extended to more and more activities. Outsourcing the management of an institution's information technology, data processing and computer system has become routine. In the early 1990s most American computer firms, eg, Apple, even outsourced the production of their hardware to manufacturers in Japan or Singapore. In the late 1990s practically every Japanese consumer-electronics company repaid the compliment by outsourcing the manufacturing of its products for the American market to American contract manufacturers.



In the past few years the entire human-resources management of more than 2m American workers—hiring, firing, training, benefits and so on—has been outsourced to professional employee

organisations. This sector, which ten years ago barely existed, is now growing at a rate of 30% a year. It originally concentrated on small and medium-sized companies, but the biggest of the firms, Exult, founded only in 1998, now manages employment issues for a number of *Fortune* 500 companies, including BP, a British-American oil giant, and Unisys, a computer maker. According to a study by McKinsey, a consultancy, outsourcing human-relations management in this way can save up to 30% of the cost, and increase employee satisfaction as well.

•The customer now has the information. As yet, the Internet lacks the equivalent of a telephone book that would make it easy for users to find what they are looking for. It still requires pecking and hunting. But the information is somewhere on a website, and search firms to find it for a fee are rapidly developing. Whoever has the information has the power. Power is thus shifting to the customer, be it another business or the ultimate consumer. Specifically, that means the supplier, eg, the manufacturer, will cease to be a seller and instead become a buyer for the customer. This is already happening.

General Motors (GM), still the world's largest manufacturer and for many years its most successful selling organisation, last year announced the creation of a major business that will buy for the ultimate car consumer. Although wholly owned by GM, the business will be autonomous, and will buy not only General Motors cars, but whatever car and model most closely fits the individual customer's preferences, values and wallet.

•Lastly, there are few unique technologies any more. Increasingly, the knowledge needed in a given industry comes out of some totally different technology with which, very often, the people in the industry are unfamiliar. No one in the telephone industry knew anything about fibreglass cables. They were developed by a glass company, Corning. Conversely, more than half the important inventions developed since the second world war by the most productive of the great research labs, the Bell Laboratory, have been applied mainly outside the telephone industry.

The Bell Lab's most significant invention of the past 50 years was the transistor, which created the modern electronics industry. But the telephone company saw so little use for this revolutionary new device that it practically gave it away to anybody who asked for it—which is what put Sony, and with it the Japanese, into the consumer-electronics business.

Who needs a research lab?

Research directors, as well as high-tech industrialists, now tend to believe that the company-owned research lab, that proud 19th-century invention, has become obsolete. This explains why, increasingly, development and growth of a business is taking place not inside the corporation itself but through partnerships, joint ventures, alliances, minority participation and know-how agreements with institutions in different industries and with a different technology. Something that only 50 years ago would have been unthinkable is becoming common: alliances between institutions of a totally different character, say a profit-making company and a university department, or a city or state government and a business that contracts for a specific service such as cleaning the streets or running prisons.

Practically no product or service any longer has either a single specific end-use or application, or its own market. Commercial paper competes with the banks' commercial loans. Cardboard, plastic and aluminium compete with glass for the bottle market. Glass is replacing copper in cables. Steel is competing with wood and plastic in providing the studs around which the American one-family home is constructed. The deferred annuity is pushing aside traditional life insurance—but, in turn, insurance companies rather than financial-service institutions are becoming the managers of commercial risks.

A “glass company” may therefore have to redefine itself by what it is good at doing rather than by the material in which it has specialised in the past. One of the world's largest glass makers, Corning, sold its profitable business making traditional glass products to become the number one producer and supplier of high-tech materials. Merck, America's largest pharmaceutical company, diversified from making drugs into wholesaling every kind of pharmacy product, most of them not even made by Merck, and a good many by competitors.

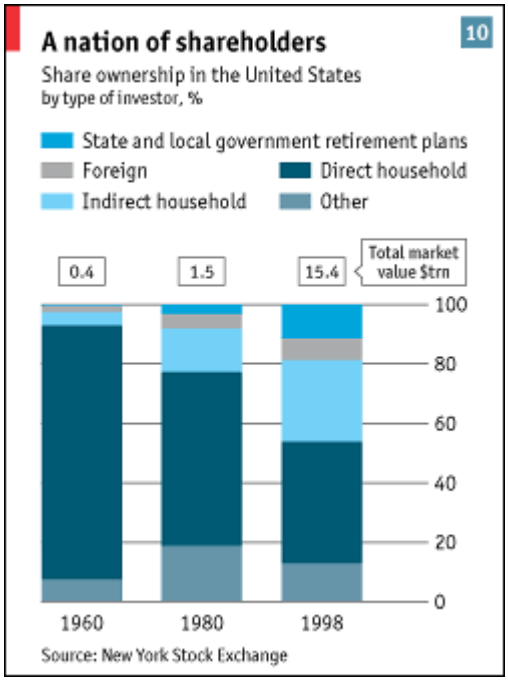
The same sort of thing is happening in the non-business sectors of the economy. One example is the free-standing “birthing centre” run by a group of obstetricians that competes with the American hospital's maternity ward. And Britain, long before the Internet, created the “Open University”, which allowed people to get a university education and obtain a degree without ever setting foot in a classroom or attending a lecture.

The next company

One thing is almost certain: in future there will be not one kind of corporation but several different ones. The modern company was invented simultaneously but independently in three countries: America, Germany and Japan. It was a complete novelty and bore no resemblance to the economic organisation that had been the “economic enterprise” for millennia: the small, privately owned and personally run firm. As late as 1832, England's McLane Report—the first statistical survey of business—found that nearly all firms were privately owned and had fewer than ten employees. The only exceptions were quasi-governmental organisations such as the Bank of England or the East India Company. Forty years later a new kind of organisation with thousands of employees had appeared on the scene, eg, the American railroads, built with federal and state support, and Germany's Deutsche Bank.

Wherever the corporation went, it acquired some national characteristics and adapted to different legal rules in each country. Moreover, very large corporations everywhere are being run quite differently from the small owner-managed kind. And there are substantial internal differences in culture, values and rhetoric between corporations in different industries. Banks everywhere are very much alike, and so are retailers or manufacturers. But banks everywhere are different from retailers or manufacturers. Otherwise, however, the differences between corporations everywhere are more of style than of substance. The same is true of all other organisations in modern society: government agencies, armed forces, hospitals, universities and so on.

The tide turned around 1970, first with the emergence of new institutional investors such as pension funds and mutual trusts as the new owners, then—more decisively—with the emergence of knowledge workers as the economy's big new resource and the society's representative class. The result has been a fundamental change in the corporation.



A bank in the next society will still not look like a hospital, nor be run like one. But different banks may be quite different from one another, depending on how each of them responds to the changes in its workforce, technology and markets. A number of different models is likely to emerge, especially of organisation and structure, but perhaps also of recognitions and rewards.

The same legal entity—eg, a business, a government agency or a large not-for-profit organisation—may well contain several different human organisations that interlock, but are managed separately and differently. One of these is likely to be a traditional organisation of full-time employees. Yet there may also be a closely linked but separately managed human organisation made up mainly of older people who are not employees but associates or affiliates. And there are likely to be “perimeter” groups such as the people who work for the organisation, even full-time, but as employees of an outsourcing contractor or of a contract manufacturer. These people have no contractual relationship with the business they work for, which in turn has no control over them. They may not have to be “managed”, but they have to be made productive. They will therefore have to be deployed where their specialised knowledge can make the greatest contribution. Despite all the present talk of “knowledge management”, no one yet really knows how to do it.

Just as important, the people in every one of these organisational categories will have to be satisfied. Attracting them and holding them will become the central task of people management. We already know what does not work: bribery. In the past ten or 15 years many businesses in America have used bonuses or stock options to attract and keep knowledge workers. It always fails.

According to an old saying, you cannot hire a hand: the whole man always comes with it. But you cannot hire a man either; the spouse almost always comes with it. And the spouse has already spent the money when falling profits eliminate the bonus or falling stock prices make the option worthless. Then both the employee and the spouse feel bitter and betrayed.

Of course knowledge workers need to be satisfied with their pay, because dissatisfaction with income and benefits is a powerful disincentive. The

incentives, however, are different. The management of knowledge workers should be based on the assumption that the corporation needs them more than they need the corporation. They know they can leave. They have both mobility and self-confidence. This means they have to be treated and managed as volunteers, in the same way as volunteers who work for not-for-profit organisations. The first thing such people want to know is what the company is trying to do and where it is going. Next, they are interested in personal achievement and personal responsibility—which means they have to be put in the right job. Knowledge workers expect continuous learning and continuous training. Above all, they want respect, not so much for themselves but for their area of knowledge. In that regard, they have moved several steps beyond traditional workers, who used to expect to be told what to do, although later they were increasingly expected to "participate". Knowledge workers, by contrast, expect to make the decisions in their own area.

of knowledge workers should be based on the assumption that the corporation needs them more than they need the corporation

From corporation to confederation

Eighty years ago, GM first developed both the organisational concepts and the organisational structure on which today's large corporations everywhere are based. It also invented the idea of a distinct top management. Now it is experimenting with a range of new organisational models. It has been changing itself from a unitary corporation held together by control through ownership into a group held together by management control, with GM often holding only a minority stake. GM now controls but does not own Fiat, itself one of the oldest and largest car makers. It also controls Saab in Sweden and two smaller Japanese car makers, Suzuki and Isuzu.

At the same time GM has divested itself of much of its manufacturing by spinning off into a separate company, called Delphi, the making of parts and accessories that together account for 60-70% of the cost of producing a car. Instead of owning—or at least controlling—the suppliers of parts and accessories, GM will in future buy them at auction and on the Internet. It has joined up with its American competitors, Ford and DaimlerChrysler, to create an independent purchasing co-operative that will buy for its members from whatever source offers the best deal. All the other car makers have been invited to join.

GM will still design its cars, it will still make engines, and it will still assemble. It will also still sell its cars through its dealer network. But in addition to selling its own cars, GM intends to become a car merchant and a buyer for the ultimate consumer, finding the right car for the buyer no matter who makes it.

The Toyota way

GM is still the world's largest car manufacturer, but for the past 20 years Toyota has been the most successful one. Like GM, Toyota is building a worldwide group, but unlike GM, Toyota has organised its group round its core competence in manufacturing. The company is moving away from having multiple suppliers of parts and accessories, ultimately aiming for no more than two suppliers for any one part. These suppliers will be separate and independent companies, owned locally, but Toyota will in effect run their manufacturing operation for them. They will get the Toyota business only if they agree to being inspected and "advised" by a special Toyota manufacturing consulting organisation. And Toyota will also do most of the design work for the suppliers.

This is not a new idea. Sears Roebuck did the same for its suppliers in the 1920s and 1930s. Britain's Marks & Spencer, although in deep trouble now, was the world's most successful retailer for 50 years, maintaining its pre-eminence largely by keeping an iron grip on its suppliers. It is rumoured in Japan that Toyota intends ultimately to market its manufacturing consultancy to non-car companies, turning its manufacturing core competence into a separate big business.

Yet another approach is being explored by a large manufacturer of branded and packaged consumer goods. Some 60% of the company's products are sold in the developed countries through some 150 retail chains. The company plans to create a worldwide website that will take orders direct from customers in all countries, either to be picked up in the retail store nearest to them or to be delivered by that store to their home. But—and this is the true innovation—the website will also take orders for non-competing packaged and branded consumer products made by other, and especially smaller, firms. Such firms have great difficulty in getting their wares on to increasingly crowded supermarket shelves. The multinational's website could offer them direct access to customers and delivery through an established large retailer. The pay-off for the multinational and the retailer would be that both get a decent

commission without having to invest any money of their own, without risk and without sacrificing shelf space to slow-moving items.

There are already a good many variations on this theme: the American contract manufacturers, already mentioned, who now make the products for half a dozen competing Japanese consumer-electronics firms; a few independent specialists who design software for competing information-hardware makers; the independent specialists who design credit cards for competing American banks and also often market and clear the cards for the bank. All the bank does is the financing.

These approaches, however different, still all take the traditional corporation as their point of departure. But there are also some new ideas that do away with the corporate model altogether. One example is a “syndicate” being tested by several non-competing manufacturers in the European Union. Each of the constituent companies is medium-sized, family-owned and owner-managed. Each is a leader in a narrow, highly engineered product line. Each is heavily export-dependent. The individual companies intend to remain independent, and to continue to design their products separately. They will also continue to make them in their own plants for their main markets, and to sell them in these markets. But for other markets, and especially for emerging or less developed countries, the syndicate will arrange for the making of the products, either in syndicate-owned plants producing for several of the members or by local contract manufacturers. The syndicate will handle the delivery of all members' products and service them in all markets. Each member will own a share of the syndicate, and the syndicate, in turn, will own a small share of each member's capital. If this sounds familiar, it is because the model is the 19th century farmers' co-operative.

As the corporation moves towards a confederation or a syndicate, it will increasingly need a top management that is separate, powerful and accountable. This top management's responsibilities will cover the entire organisation's direction, planning, strategy, values and principles; its structure and its relationship between its various members; its alliances, partnerships and joint ventures; and its research, design and innovation. It will have to take charge of the management of the two resources common to all units of the organisation: key people and money. It will represent the corporation to the outside world and maintain relationships with governments, the public, the media and organised labour.

Life at the top

An equally important task for top management in the next society's corporation will be to balance the three dimensions of the corporation: as an economic organisation, as a human organisation and as an increasingly important social organisation. Each of the three models of the corporation developed in the past half-century stressed one of these dimensions and subordinated the other two. The German model of the “social market economy” put the emphasis on the social dimension, the Japanese one on the human dimension and the American one (“shareholder sovereignty”) on the economic dimension.

None of the three is adequate on its own. The German model achieved both economic success and social stability, but at the price of high unemployment and dangerous labour-market rigidity. The Japanese model was strikingly successful for 20 years, but faltered at the first serious challenge; indeed it has become a major obstacle to recovery from Japan's present recession. Shareholder sovereignty is also bound to flounder. It is a fair-weather model that works well only in times of prosperity. Obviously the enterprise can fulfill its human and social functions only if it prospers as a business. But now that knowledge workers are becoming the key employees, a company also needs to be a desirable employer to be successful.

Crucially, the claim to the absolute primacy of business gains that made shareholder sovereignty possible has also highlighted the importance of the corporation's social function. The new shareholders whose emergence since 1960 or 1970 produced shareholder sovereignty are not “capitalists”. They are employees who own a stake in the business through their retirement and pension funds. By 2000, pension funds and mutual funds had come to own the majority of the share capital of America's large companies. This has given shareholders the power to demand short-term rewards. But the need for a secure retirement income will increasingly focus people's minds on the future value of the investment. Corporations, therefore, will have to pay attention both to their short-term business results and to their long-term performance as providers of retirement benefits. The two are not irreconcilable, but they are different, and they will have to be balanced.

Corporations, therefore, will have to pay attention both to their short-term business results and to their long-term performance as providers of retirement benefits

Over the past decade or two, managing a large corporation has changed out of all recognition. That explains the emergence of the “CEO superman”, such as Jack Welch of GE, Andy Grove of Intel or Sanford Weill of Citigroup. But organisations cannot rely on finding supermen to run them; the supply is both unpredictable and far too limited. Organisations survive only if they can be run by competent people who take their job seriously. That it takes genius today to be the boss of a big organisation clearly indicates that top management is in crisis.

Impossible jobs

The recent failure rate of chief executives in big American companies points in the same direction. A large proportion of CEOs of such companies appointed in the past ten years were fired as failures within a year or two. But each of these people had been picked for his proven competence, and each had been highly successful in his previous jobs. This suggests that the jobs they took on had become undoable. The American record suggests not human failure but systems failure. Top management in big organisations needs a new concept.

Some elements of such a concept are beginning to emerge. For instance, Jack Welch at GE has built a top-management team in which the company's chief financial officer and its chief human-resources officer are near-equals to the chief executive, and are both excluded from the succession to the top job. He has also given himself and his team a clear and publicly announced priority task on which to concentrate. During his 20 years in the top job, Mr Welch has had three such priorities, each occupying him for five years or more. Each time he has delegated everything else to the top managements of the operating businesses within the GE confederation.

A different approach has been taken by Asea Brown Boveri (ABB), a huge Swedish-Swiss engineering multinational. Goran Lindahl, who retired as chief executive earlier this year, went even further than GE in making the individual units within the company into separate worldwide businesses and building up a strong top management team of a few non-operating people. But he also defined for himself a new role as a one-man information system for the company, travelling incessantly to get to know all the senior managers personally, listening to them and telling them what went on within the organisation.

A largish financial-services company tried another idea: appointing not one CEO but six. The head of each of the five operating businesses is also CEO for the whole company in one top management area, such as corporate planning and strategy or human resources. The company's chairman represents the company to the outside world and is also directly concerned with obtaining, allocating and managing capital. All six people meet twice a week as the top management committee. This seems to work well, but only because none of the five operating CEOs wants the chairman's job; each prefers to stay in operations. Even the man who designed the system, and then himself took the chairman's job, doubts that the system will survive once he is gone.

In their different ways, the top people at all of these companies were trying to do the same thing: to establish their organisation's unique personality. And that may well be the most important task for top management in the next society's big organisations. In the half-century after the second world war, the business corporation has brilliantly proved itself as an economic organisation, ie, a creator of wealth and jobs. In the next society, the biggest challenge for the large company—especially for the multinational—may be its social legitimacy: its values, its mission, its vision. Increasingly, in the next society's corporation, top management will, in fact, be the company. Everything else can be outsourced.

In the next society, the biggest challenge for the large company may be its social legitimacy: its values, its mission, its vision

Will the corporation survive? Yes, after a fashion. Something akin to a corporation will have to co-ordinate the next society's economic resources. Legally and perhaps financially, it may even look much the same as today's corporation. But instead of there being a single model adopted by everyone, there will be a range of models to choose from.

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The way ahead

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From The Economist print edition

The time to get ready for the next society is now

THE next society has not quite arrived yet, but it has got far enough for action to be considered in the following areas:

•**The future corporation**. Enterprises—including a good many non-businesses, such as universities—should start experimenting with new corporate forms and conducting a few pilot studies, especially in working with alliances, partners and joint ventures, and in defining new structures and new tasks for top management. New models are also needed for geographical and product diversification for multinational companies, and for balancing concentration and diversification.

•**People policies**. The way people are managed almost everywhere assumes that the workforce is still largely made up of people who are employed by the enterprise and work full-time for it until they are fired, quit, retire or die. Yet already in many organisations as many as two-fifths of the people who work there are not employees and do not work full-time.

Today's human-resources managers also still assume that the most desirable and least costly employees are young ones. In America, especially, older people, and particularly older managers and professionals, have been pushed into early retirement to make room for younger people who are believed to cost less or to have more up-to-date skills. The results of this policy have not been encouraging. Generally speaking, after two years wage costs per employee for the younger recruits tend to be back where they were before the “oldies” were pushed out, if not higher. The number of salaried employees seems to be going up at least as fast as production or sales, which means that the new young hires are no more productive than the old ones were. But in any event, demography will make the present policy increasingly self-defeating and expensive.

The first need is for a people policy that covers all those who work for an enterprise, whether they are employed by it or not. After all, the performance of every single one of them matters. So far, no one seems to have devised a satisfactory solution to this problem. Second, enterprises must attract, hold and make productive people who have reached official retirement age, have become independent outside contractors or are not available as full-time permanent employees. For example, highly skilled and educated older people, instead of being retired, might be offered a choice of continuing relationships that convert them into long-term “inside outsiders”, preserving their skill and knowledge for the enterprise and yet giving them the flexibility and freedom they expect and can afford.

There is a model for this, but it comes from academia rather than business: the professor emeritus, who has vacated his chair and no longer draws a salary. He remains free to teach as much as he wants, but gets paid only for what he does. Many emeriti do retire altogether, but perhaps as many as half continue to teach part-time, and many continue to do full-time research. A similar arrangement might well suit senior professionals in a business. A big American corporation is currently trying out such an arrangement for older top-level people in its law and tax departments, in research and development and in staff jobs. But for people in operating work, eg, sales or manufacturing, something different needs to be developed.

•**Outside information**. Perhaps surprisingly, it can be argued that the information revolution has caused managements to be less well informed than they were before. They have more data, to be sure, but most of the information so readily made available by IT is about internal company matters. As this survey has shown, though, the most important changes affecting an institution today are likely to be outside ones, about which present information systems offer few clues.

One reason is that information about the outside world is not usually available in computer-useable form. It is not codified, nor is it usually quantified. This is why IT people, and their executive customers, tend to scorn information about the outside world as “anecdotal”. Moreover, far too many managers assume, wrongly, that the society they have known all their lives will remain the same forever.

Outside information is now becoming available on the Internet. Although this is still in totally disorganised form, it is now possible for managements to ask what outside information they need, as a first step towards devising a proper information system for collecting relevant information about the outside world.

•**Change agents**. To survive and succeed, every organisation will have to turn itself into a change agent. The most effective way to manage change successfully is to create it. But experience has shown that grafting innovation on to a traditional enterprise does not work. The enterprise has to become a change agent. This requires the organised abandonment of things that have been shown to be unsuccessful, and the organised and continuous improvement of every product, service and process within the enterprise (which the Japanese call *kaizen*). It requires the exploitation of successes, especially unexpected and unplanned-for ones, and it requires systematic innovation. The point of becoming a change agent is that it changes the mindset of the entire organisation. Instead of seeing change as a threat, its people will come to consider it as an opportunity.

And then?

So much for getting ready for the future that we can already see taking shape. But what about future trends and events we are not even aware of yet? If there is one thing that can be forecast with confidence, it is that the future will turn out in unexpected ways.

Take, for example, the information revolution. Almost everybody is sure of two things about it: first, that it is proceeding with unprecedented speed; and second, that its effects will be more radical than anything that has gone before. Wrong, and wrong again. Both in its speed and its impact, the information revolution uncannily resembles its two predecessors within the past 200 years, the first industrial revolution of the later 18th and early 19th centuries and the second industrial revolution in the late 19th century.

The first industrial revolution, triggered by James Watt's improved steam engine in the mid-1770s, immediately had an enormous impact on the West's imagination, but it did not produce many social and economic changes until the invention of the railroad in 1829, and of pre-paid postal service and of the telegraph in the decade thereafter. Similarly, the invention of the computer in the mid-1940s, the information revolution's equivalent of the steam engine, stimulated people's imagination, but it was not until 40 years later, with the spread of the Internet in the 1990s, that the information revolution began to bring about big economic and social changes.

Equally, today we are puzzled and alarmed by the growing inequality in income and wealth and by the emergence of the “super-rich”, such as Microsoft's Bill Gates. Yet the same sudden and inexplicable growth in inequality, and the same emergence of the “super-rich” of their day, characterised both the first and the second industrial revolutions. Relative to the average income and average wealth of their time and country, those earlier super-rich were a good deal richer than a Bill Gates is relative to today's average income and wealth in America.

The main effects of the information revolution on the next society still lie ahead

These parallels are close and striking enough to make it almost certain that, as in the earlier industrial revolutions, the main effects of the information revolution on the next society still lie ahead. The decades of the 19th century following the first and second industrial revolutions were the most innovative and most fertile periods since the 16th century for the creation of new institutions and new theories. The first industrial revolution turned the factory into the central production organisation and the main creator of wealth. Factory workers became the first new social class since the appearance of knights in armour more than 1,000 years earlier. The house of Rothschild, which emerged as the world's dominant financial power after 1810, was not only the first investment bank but also the first multinational company since the 15th century Hanseatic League and the Medici. The first industrial revolution brought forth, among many other things, intellectual property, universal incorporation, limited liability, the trade union, the co-operative, the technical university and the daily newspaper. The second industrial revolution produced the modern civil service and the modern corporation, the commercial bank, the business school, and the first non-

menial jobs outside the home for women.

The two industrial revolutions also bred new theories and new ideologies. The Communist Manifesto was a response to the first industrial revolution; the political theories that together shaped the 20th-century democracies—Bismarck's welfare state, Britain's Christian Socialism and Fabians, America's regulation of business—were all responses to the second one. So was Frederick Winslow Taylor's “scientific management” (starting in 1881), with its productivity explosion.

Big ideas

Following the information revolution, once again we see the emergence of new institutions and new theories. The new economic regions—the European Union, NAFTA and the proposed Free-Trade Area of the Americas—are neither traditionally free-trade nor traditionally protectionist. They attempt a new balance between the two, and between the economic sovereignty of the national state and supranational economic decision-making. Equally, there is no real precedent for the Citigroups, Goldman Sachses or ING Barings that have come to dominate world finance. They are not multinational but transnational. The money they deal in is almost totally beyond the control of any country's government or central bank.

And then there is the upsurge in interest in Joseph Schumpeter's postulates of “dynamic disequilibrium” as the economy's only stable state; of the innovator's “creative destruction” as the economy's driving force; and of new technology as the main, if not the only, economic change agent—the very antithesis of earlier economic theories based on the idea of equilibrium as a healthy economy's norm, monetary and fiscal policies as the drivers of a modern economy and technology as an “externality”.

All this suggests that the greatest changes are almost certainly still ahead of us. We can also be sure that the society of 2030 will be very different from that of today, and that it will bear little resemblance to that predicted by today's best-selling futurists. It will not be dominated or even shaped by information technology. IT will, of course, be important, but it will be only one of several important new technologies. The central feature of the next society, as of its predecessors, will be new institutions and new theories, ideologies and problems.

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The shake-up at Ford

Jacques knifed

Nov 1st 2001 | DETROIT
From The Economist print edition

Jacques Nasser may be gone, replaced at the wheel by a scion of the founding family. But the car maker's problems are far from over

Get article background

SINCE the days of the first Henry Ford, outside managers have always had a precarious grip on power at the Ford Motor Company, in which the Ford family holds 40% of the voting shares. When Henry Ford II, known to friends as Hank the Deuce, fired his high-profile president, Lee Iacocca, a quarter of a century ago, he offered a mere five words in explanation: “I just don't like you.” On October 30th, the knife was out again at the world's second-biggest car maker, this time plunging into the back of Jacques Nasser, the company's chief executive.

Mr Nasser's place at Ford's helm is being taken by William Clay Ford Jr, great-grandson of the founder and part-time chairman for the past three years. The relationship between Mr Nasser and Mr Ford was never easy. One row a couple of years ago grew so heated that a frightened secretary, sitting outside Mr Nasser's office, summoned security. The rapport did not improve when, several months ago, Mr Ford became more closely involved in the running of the company after a power-sharing “office of the chairman and chief executive” was formed.

This week, Mr Ford admitted that he had been plotting the removal of Mr Nasser for about a month. The company, he said, had become paralysed by the “cacophony” of speculation inside and out that the pair were not getting on, amid worsening performance as Ford racked up losses of $1.4 billion in the past six months, after a long run of profits. The stockmarket welcomed the changes, not because investors have developed a liking for nepotism, but because the company at last appears to be facing up to its problems—and because Mr Ford will be surrounded by some able lieutenants. These include Carl Reichardt, a former boss of the Wells Fargo bank and already a non-executive director at Ford, who becomes vice-chairman and finance supremo; and Sir Nick Scheele, head of Ford's North American operations, who becomes chief operating officer in the reshuffle. In effect, Sir Nick will run the company alongside Mr Ford.

Although Mr Nasser had built a reputation as a ruthless cost-cutter, his tenure as chief executive was marked by mistakes and mishaps. Modelling himself on General Electric's Jack Welch, he set out to transform a hidebound car company. Unlike Mr Welch, however, he failed to combine charisma with the charm that can make employees like even the toughest of leaders. He dared to try to overtake General Motors (GM) as the world's biggest car maker, largely by developing car-related service businesses. Instead, Ford's sales slipped as its products lost allure in both America and Europe.

Under Mr Nasser, the quality of Ford's vehicles, long the best in Detroit, deteriorated. So did productivity and profits. Ford cars now cost about $1,000 more to make than they did five years ago, but prices have meanwhile fallen in real terms. Mr Nasser's bold foray into e-commerce led to hundreds of millions of dollars in losses. His move into car distribution, buying some big dealers, merely alienated the others. Inside the company, his performance-review system, which threatened laggard managers with dismissal, backfired and undermined morale. Like the dealer purchases, this policy had to be reversed.

All might have been forgiven or tolerated a little longer, were it not for the Firestone fiasco. In August 2000, and again in May 2001, Ford was forced to recall millions of Firestone tyres. It blamed the tyre manufacturer for a series of accidents that have now claimed more than 300 lives. Firestone insisted that the problem lay with design defects in Ford's Explorer sport-utility vehicle (SUV). Hauled before Congress and pilloried in the press, Ford faced a year of excoriation. The campaign greatly damaged the firm's reputation as being customer-friendly.

Heir transplant

Is Mr Ford the right person to get the company back on the road? The first family member at the wheel since 1979, he insisted this week, unconvincingly, that his newly expanded role was not just the result of “having the right last name”. The highest position he held before using family clout to get on the board was running the air-conditioning division. But those who question his credentials do so at their peril. The tenure of a former Ford chairman, Donald Peterson, came to an abrupt end in 1989 when he dared question the young Mr Ford's desire to take a board seat.

Going from chairman (“I manage the board, Jacques manages the company,” he used to say) to chief executive will test the mettle of the affable heir. He has benefited from a carefully crafted image as a family man and avowed environmentalist. Unlike Mr Nasser, he is popular in Ford: he got a standing ovation from staff after his appointment this week. He was highly visible at the scene of a power plant explosion that killed several Ford employees two years ago, but stayed clear of the Firestone flap, leaving Mr Nasser to take the heat. However, his criticism of the company's most profitable product, its gas-guzzling SUVs, vexed investors. In his new role, Mr Ford promises to use technology to benefit both shareholders and the environment.

Virtually everything Mr Nasser put in place is under scrutiny

His first challenge is to stop Ford's losses, which, in his words, requires the company to go “back to basics”. He was anything but kind this week about Mr Nasser's legacy: the abrasive Australian had, he said, “dropped the ball” and “lost focus”. Virtually everything Mr Nasser put in place is under scrutiny in a review that has been under way for some months, led by Sir Nick, who made his reputation turning round Jaguar after Ford bought it in 1989. (Jaguar also lost its boss this week: Jonathan Browning, who helped steer the division to record sales, resigned, apparently unhappy that it was being lumped with other British subsidiaries under an “operating committee”.)

Until three months ago, Sir Nick was overseeing the turnaround at Ford Europe, before being called to Detroit to run the North American operations and carry out a review of what was going wrong in the company. He also took over much of Mr Nasser's work. Sir Nick says he has been looking at much more than just capacity cuts. He points out that Ford became complacent in the light-truck market (minivans, SUVs and so on), where its dominance came to be challenged by superior new products from competitors such as Toyota. This hit Ford hard, because light trucks are where it makes most of its profits in North America. So developing new products in this area is a priority. Another big challenge will be rebuilding the company's relationships with customers, dealers, suppliers and employees.

“He was the right man in the right place at the wrong time”

Is Mr Nasser really to blame for all that has gone wrong? “He was the right man in the right place at the wrong time,” argues an admirer. But the reality now facing Ford is anything but the rosy picture of industry domination that Mr Nasser painted. The company will struggle to rebuild its market share and profits in the face of a withering assault from Japanese, European and South Korean car makers. Sir Nick says he will not disclose targets for market share—a sure sign that times are tough.

Worse still for Ford, GM is on its way to posting its first annual market-share gain in 30 years. Forced to match the market leader's interest-free customer finance scheme, Ford's losses are mounting. To make matters worse, its debt was recently downgraded by the main credit-rating agencies. The extra

borrowing costs put Ford in a “very difficult period”, according to Mr Reichardt. With signs that the American economy—and car sales—will shrink in 2002, Mr Ford and his new team will struggle to find early remedies. When a car company slows down as much as Ford has, it takes a long time and lots of punchy new products to regain momentum.

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Satellite television

Soap opera

Nov 1st 2001
From The Economist print edition

EchoStar has grabbed DirecTV, but Rupert Murdoch may be back yet

IT IS the sort of plot on which network prime-time TV thrives: backwoodsman from the Rocky Mountains, who founded a business by selling satellite dishes out of a pick-up truck (Charlie Ergen), outsmarts savvy media mogul (Rupert Murdoch) to clinch America's biggest satellite-television operator (DirecTV). On October 29th General Motors duly announced that it was selling Hughes Electronics, which operates DirecTV, to EchoStar, Mr Ergen's satellite-TV company, which is only a little over half DirecTV's size, for $26 billion.

For Mr Murdoch, who had withdrawn his own offer for Hughes two days previously, this was quite a snub. He recently said that his effort to ensnare DirecTV had taken up “a tremendous amount of our senior executives' time...for a whole 12 months.” His obsession with DirecTV stemmed from his ambition to own a global chain of satellite-TV operations, and to create a media conglomerate powerful enough both in content and in distribution to rival the likes of AOL Time Warner. It was only at the last minute, say executives at NewsCorp, his media group, that he realised GM had been seduced by Mr Ergen, and so pulled out.

For now, the gamble by Mr Ergen, who once earned his way by playing blackjack, seems to have paid off. With a combined total of 15m subscribers, the merged satellite-TV business, to be called EchoStar, will be bigger than AT&T, the biggest cable operator. This will give the new business far greater clout in negotiations over programming rights, the single biggest cost for a satellite-TV company, and will transform EchoStar from a parochial outfit into a powerful media operator.

Yet Mr Murdoch should not be written off just yet. The deal could come unstuck, to his advantage, on antitrust grounds. The combined company will control a hefty 90% of the American satellite-TV market, though regulators now define the relevant market in which to judge antitrust matters as cable and satellite-TV combined. The enlarged EchoStar will hold only about 17% of this market.

However, most cable companies do not compete with each other, since they hold monopoly local franchises. So, in any one town, consumers wanting to get pay-TV into their living rooms have only three choices: the incumbent cable company or the two main satellite operators. After the merger, that choice will shrink to just two. On the face of it, this is a self-evident loss of competition. Certainly, in remote rural areas not served by cable at all, which constitute about 4% of the market, consumers will now be left with a single, monopoly operator: EchoStar.

Mindful of this objection, Mr Ergen has promised to charge such customers the same price as any others. He has also hired David Boies, an antitrust lawyer who represented the government against Microsoft, to argue his case. But Mr Ergen is a less seasoned Washington operator than Mr Murdoch. As one industry-watcher puts it: “This is a guy who knows how to fix transponders rather than political opinions.”

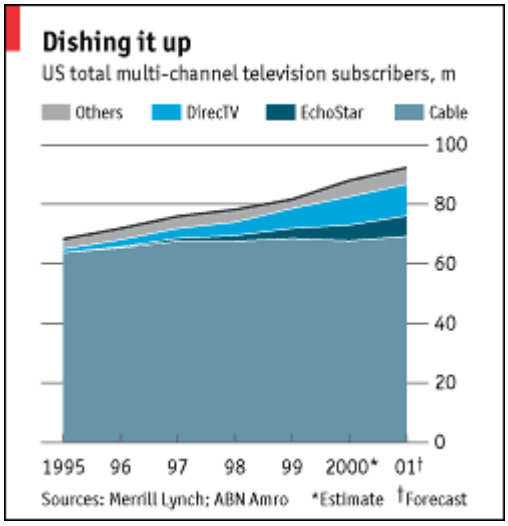
Yet Mr Ergen may have a case. As the mighty cable companies themselves consolidate, the argument for a bigger satellite-TV operator that could compete with these giants strengthens. The merged company would certainly be fitter. It would gain scale efficiencies, such as the elimination of duplicated satellite transmissions by two separate firms, thereby freeing up spectrum for beaming down other channels and services.

Moreover, the fusion of the two biggest satellite-TV providers may affect competition less than some think. That is because the satellite-TV operators compete less with each other than they do with cable. Most of their impressive recent growth (see chart) has

come from signing up cable customers rather than each other's. As Robert Kaimowitz of SG Cowen, an investment bank, points out: “There's virtually no cross-platform churn [cancellations] between satellite operators: people switch from cable to satellite.”

Even if EchoStar can win over the antitrust regulators, however, there are still financial tripwires ahead. EchoStar has still not completed its financing. In an unusual move, GM itself is lending $2.75 billion to EchoStar, secured against Mr Ergen's own stock in the company, while EchoStar looks around for some more money.

For now, Mr Murdoch has urged his people to get back to running the business, and to put an end to the massive distraction of the DirecTV affair. But in the longer run, should EchoStar turn out to have over-reached, Mr Murdoch knows full well that he could walk back in with his chequebook open—this time, as the only bidder, with a much stronger hand.



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Chinese telecoms

Into the crucible

Nov 1st 2001 | HONG KONG
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Might China's telephone companies soon have a world-class regulator?

IN CHARACTERISTIC fashion, China has now officially embarked on the restructuring of its telecoms market, the world's largest by number of users. The process began last month with a report in the state-controlled press that a decision had at last been reached to break up China Telecom, the fixed-line monopoly, into a northern and a southern part. It continued with expressions of surprise by China's telecoms regulator, who favoured a different plan but had not been consulted. Next, the State Council, China's cabinet, denied that any decision was final. This in turn was ignored by Beijing's elite, which was already speculating about who would get what job in the new corporate giants. And finally, industry insiders started wondering whether a north-south split (assuming it is settled) clarifies anything at all.

AP

Trying to make sense of the market

Such chaos is normal in China's telecoms industry, but this time order will emerge from it. It has to, because the government plans to list shares in China Telecom's successors on foreign bourses as early as next spring. This will coincide with China's accession to the World Trade Organisation—and thus with new rules on foreign competition—as well as with preparations for a change in leadership at next autumn's Communist Party congress.

In a matter of months, China must therefore deal with all the outstanding issues facing its telecoms industry. The most basic of these is regulation. The hope is that China, as a “last mover” among big markets in liberalising, will avoid mistakes made by other governments. The fear is that politics will spring ugly surprises.

The problems with China's present system of telecoms regulation are a legacy of central planning. The regulator, the telecoms ministry, is not an impartial referee but intervenes on behalf of its favourites. Until recently, the monopoly service provider was an arm of the ministry. This changed only slightly after the government, keen to introduce a semblance of competition, licensed a second mobile operator, called China Unicom, in 1994. “I want not only to strangle Unicom, but to bury it deep,” the telecoms minister, Wu Jichuan, was overheard saying at the time. Mr Wu fought ferociously against Unicom, but it had the backing of other powerful ministries, and a managed duopoly now exists in mobile telephony. This is regulated by politics rather than market forces.

Such turf wars have damaged the economics of the industry. Another battle rages between Mr Wu and Xu Guangchun, the regulator of China's media and cable industries. With 90m subscribers, China is the

world's largest cable market, and Mr Xu has long wanted to upgrade the cable infrastructure so that it can carry two-way voice and data traffic as well as television, thus providing competition for China Telecom. With such a “convergence”, however, either Mr Wu or Mr Xu would gain power at the expense of the other. So each has banned the other's industry from competing in his patch. With the exception of Shanghai, China's telecoms and cable infrastructures duplicate each other.

Thanks to the lawlessness and arbitrariness of China's telecoms sector, such waste is everywhere. Take, for instance, CITIC, an influential government-linked investment conglomerate. It has spent the past several years laying thousands of miles of expensive fibre-optic cables around China. The hitch: it never had permission. CITIC simply bet that its connections in the Communist Party would suffice—a reasonable assumption, judging by past experience. China now has to decide what to do with this fallow and technically illegal network.

There are, however, glimpses of sanity. Zhu Rongji, China's prime minister and its most principled reformer, has long been fed up with the slow progress. Telecoms is considered the crown jewel of China's industries—the government has raised billions from listing its two mobile operators, and hopes to raise billions more from the fixed-line carriers. This year Mr Zhu has therefore, in effect, withdrawn Mr Wu's mandate, and a cabinet-level commission chaired by Mr Zhu now decides on the industry's restructuring.

What little information has dribbled out of this so far is encouraging. There are plans, for instance, to replace the telecoms and media ministries with a new super-regulator, which would at last oversee the convergence of telecoms and cable technology. More generally, there are signs that the evolving framework will favour institutions over personalities. In time, the 60-something Mr Wu is expected to retire into some party sinecure.

But much remains to be clarified. Mr Wu represents broad segments of China's bureaucracy, raised with a central-planning mentality of meeting subscriber-line quotas. The idea that regulators exist to protect consumers is new. Even Mr Zhu is still torn between coddling China's incumbents—so as to fetch more for their shares—and allowing real competition.

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European liberalisation

So much for dynamic

Nov 1st 2001 | BRUSSELS
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Despite promises in Lisbon last year, many industries remain far from free

AP

The EU has failed to deliver

REMEMBER Lisbon, the summit in March 2000 at which European Union leaders vowed to make the EU the world's most competitive and dynamic economy by 2010? Cynics dismissed the “Lisbon process” as empty verbiage. Enthusiasts, by contrast, predicted that it would unleash a new wave of economic liberalisation. Eighteen months on, the evidence so far favours the cynics.

An examination of what has happened to the Lisbon priorities does not make inspiring reading:

•Efforts to open up national **energy** markets to competition have been repeatedly frustrated. Some limited opening has already been achieved. But the French have consistently blocked efforts to set a deadline for full liberalisation. The next summit devoted to the Lisbon process will take place in Barcelona in March, but supporters of energy liberalisation have already more or less accepted that no progress will be made, since the summit will be staged just a couple of months before a French presidential election.

•An ambitious programme for creating a single European market for **financial services** was laid out in a report by Alexandre Lamfalussy, a former central banker, earlier this year. But implementation has been held up by turf wars and technical battles. The European Parliament is resisting the plan because Mr Lamfalussy wants to circumscribe its right to amend financial-services legislation. Meanwhile, various national governments have reservations about bits of the package. For example, the British are concerned that market practitioners are not being properly consulted about draft directives.

•The defeat in the European Parliament of a directive aimed at making cross-border **takeovers** easier was the biggest blow to liberalisers this year. Germany, in particular, argues that the directive should be put back on the table only if other issues are dealt with at the same time. The Germans are concerned that several countries, such as Italy and Spain, have allowed the state to retain “golden shares” in some big companies, making them less vulnerable to takeover. The Italians and Spaniards say they need golden shares to prevent domestic energy companies being taken over by France's acquisitive state-owned Electricité de France (EDF). EDF's war chest has grown thanks to a lack of domestic competition, which results from the lack of energy liberalisation in France. So blockages in one area lead to blockages in others.

•European leaders pledged to put a **common European patent** in place by the end of this year. But securing agreement in principle has proved a lot easier than hammering out the details. One frustrated official says that all the European countries involved remain “addicted” to their own national practices.

•Early success in opening up local markets for **telephony** and Internet access—or “unbundling the local loop”—have given way to frustration about securing the consistent implementation needed for a genuine single European market. Regulators in countries such as Britain and Germany are wary of ceding powers to pan-European regulators.

•Rare smiles were seen on the faces of European Commission officials when agreement was reached last month on measures to open up European **postal services** to competition. The commission reckons that 50% of all Europe's postal markets will now be fully competitive by 2006. But in order to secure agreement, the liberalisers had to avoid setting a final date for complete market opening.

This lack of progress is only part of the story. Just as worrying is the threat that liberalisation will be rolled back in other areas. Since Lisbon, “social Europe” has been making progress in ways that make European labour markets more, not less rigid. New and tougher regulations are looming on the consultation of workers by management. These will make it harder for employers to fire—and therefore make them more reluctant to hire. The use of short-term contract workers is also likely to be crimped by new regulations.

Indeed, in the coming months liberalisers may find that their biggest battles involve not so much making progress, as holding the line against rolling back measures already agreed. A big test will be whether the EU sticks to its firm line against state rescues of failing airlines. But opposing bail-outs could use up a lot of the commission's political capital, and may make it harder to persuade public opinion of the virtues of further liberalisation.

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The Executive Life affair

A strange tale

Nov 1st 2001
From The Economist print edition

How much did François Pinault really know?

EPA

An ethical businessman

BY 2006 Paris will boast a new contemporary-art museum, thanks to the generosity of one of France's richest men, François Pinault. The museum, the design of which was unveiled last week, will set him back some FFr1 billion ($140m). But Mr Pinault, who controls a giant retailing empire, may yet be landed with a larger bill in America, thanks to his entanglement with Executive Life, a California insurance company. He faces lawsuits claiming several billion dollars for alleged fraud.

The lawsuits arise out of Mr Pinault's role in the takeover of Executive Life. This company went bust in 1991, when the market value of its junk-bond portfolio collapsed. Insurance regulators opted for a rescue put together by Crédit Lyonnais, a French bank, which made a cash offer for the junk-bond portfolio and arranged for a new insurance company, Aurora, to take over Executive Life's insurance contracts. Regulators were told that the consortium that was to own and manage Aurora would be independent of Crédit Lyonnais, as federal and state laws required.

Insurance regulators in California launched a lawsuit for fraud against Crédit Lyonnais in 1999 after they discovered secret agreements. These showed that members of the consortium of “independent” shareholders in Aurora were in fact fronts for Crédit Lyonnais.

Mr Pinault and one of his companies, Artémis, were added to the lawsuit last year. The regulators allege that he was party to the fraud as buyer of, first, a large part of the junk-bond portfolio from Crédit Lyonnais and, later, Aurora. Mr Pinault acquired the bank's rights to the insurer in December 1992. The regulators believe that Mr Pinault knew from that date of the consortium's agreement to act as fronts; and that he joined a conspiracy of silence by keeping secret from them the fact that he was, in effect, buying shares in the insurance company from Crédit Lyonnais and not from members of the consortium.

Mr Pinault has dismissed the lawsuits as groundless. Artémis says it “had no reason to believe that [the regulators were] unaware of the ties” between Crédit Lyonnais and the investors. Mr Pinault insists he did not know about the fronting agreements in 1992. He claims to have found out about them only when he bought the investors' shares between April 1994 and August 1995. He also claims to have made full and accurate disclosures to regulators.

However, *The Economist* has obtained private memoranda and letters from Artémis files that seem to undermine his public stance. A memo written in January 1994 by one of Mr Pinault's advisers to the chief executive of Artémis, Patricia Barbizet, talks of the need to avoid attracting public attention to Artémis's impending purchase of Aurora. To stop the deal appearing “pre-arranged”, the memo suggests that Artémis buy the shares in stages. Mr Pinault took this advice: the purchases were spread over more than a year.

Mr Pinault needed approval from regulators for his purchases. As part of his filings, he had to disclose the sale and purchase contracts between Artémis and the ostensibly independent investors in Aurora. These included a clause guaranteeing that the sellers were the true owners of the shares. Obviously, the fronts could not give such guarantees without misrepresenting the true situation—that they were fronts for Crédit Lyonnais.

The apparent solution to this problem was secret side letters. *The Economist* has a copy of one, written in

guarded language, sent by one of the fronts to Artémis in June 1994. “You are also perfectly familiar with the content of and the obligations arising under agreements signed by our company as a shareholder of [Aurora], both in America and France.” This seems to be a coded reference to the fronting agreements, though Mr Pinault disputes this.

Even more conclusive is a letter written by Ms Barbizet in October 1995 to a senior executive at Crédit Lyonnais. “As the [Aurora] shares were fronted by four investors, the agreement of December 16th 1992 was understood to be a commitment by [Crédit Lyonnais] to substitute Artémis for its obligation to buy the shares...” The most plausible interpretation of this is that Artémis and Mr Pinault knew from the outset about the fronting agreements. Mr Pinault contends that he has acted appropriately, ethically and in good faith. When the lawsuits come to trial next year, jurors might not share that view.

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Low-cost airlines

No frills, plenty of promise

Nov 1st 2001
From The Economist print edition

Low-cost carriers hope to dominate short-haul air travel in Europe

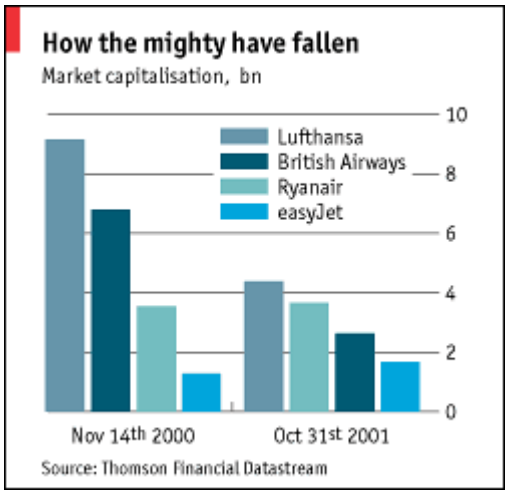
Get article background

AS ONE big airline after another flops around in the wake of September's attacks, the contrast between the flag-carriers and the low-cost airlines grows ever starker. In America, the leading no-frills carrier, Southwest, is the only big airline not to have laid off thousands of workers; it may turn out to be the only one that makes a profit this year.

Europe's low-cost start-ups, such as easyJet, Ryanair and Go, are also flying high. On October 29th, easyJet announced an 82% rise in pre-tax profits in the year to the end of September and said that it would issue new shares to finance its growth. After a brief post-September 11th dip, the airline, based at Luton, north of London, now says that seat sales are almost back to normal. Encouraged by the failure of flag-carriers like Sabena and Swissair, the low-cost airlines are chasing slots that lie idle. They sense a historic opportunity as the flag-carriers, which mostly lose money on short-haul traffic, retrench.

Not long ago, Ray Webster, chief executive of easyJet, was saying that his fleet would peak at 30 aircraft. Now he talks of expanding today's 26 jets to 250, making the carrier nearly as big as Southwest. He argues that low-cost carriers could have over half the intra-European market within five years. At the moment they have just 5%.

EasyJet originally used the business model of the American low-cost pioneers, but it has evolved into a different sort of carrier: more than 60% of its passengers are business travellers looking for a bargain. So easyJet is increasing services at big airports such as London Gatwick, which has a far bigger business market than Luton. It is also seeking slots at Paris Orly. Ryanair, by contrast, is sticking more closely to the Southwest model, flying from its Dublin and London Stansted bases to secondary airports some distance from big cities. This formula works too, delivering revenue-growth rates of more than 30% and higher margins even than Southwest. This year, Ryanair's market capitalisation has overtaken that of British Airways (see chart).



Some low-cost sceptics, such as Chris Tarry, transport analyst at Commerzbank, see risks in easyJet's strategy, because its move to big airports could drive up costs. EasyJet's latest accounts show costs rising by more than revenues—though Mr Webster puts this down to special factors, such as hiring scarce pilots before it actually needs them, to ensure that crew shortages do not hold back growth. EasyJet's plodding mainstream rivals would no doubt love to have such problems.

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Face value

Where's the beef?

Nov 1st 2001
From The Economist print edition

The boss of McDonald's is accused of running a heartless, global corporation. If only he was

JACK GREENBERG'S favourite video clip in the wake of September 11th shows a crowd of irate Muslims shaking their fists and roaring anti-American slogans outside a McDonald's restaurant in Jakarta, the Indonesian capital. Until, that is, the aghast owner runs outside, shouting that he is a Muslim who shuts up shop each Friday so that his employees can go to the mosque. Abashed, the protesters slink away.

While the McDonald's chief executive is delighted at their response, the episode encapsulates an irony at the heart of the world's largest fast-food empire. The group is often derided as a symbol of all that is wrong with globalisation: the imposition of red-toothed capitalism and shallow American values on an unwilling world. But in fact, the firm's problem is often not that it is too global—but that it is not global enough.

Of course, with more than 29,000 restaurants in 121 countries, few companies are more international. But when it comes to management, Mr Greenberg runs McDonald's less as one worldwide company than as “an amalgamation of local businesses run by local entrepreneurs from Indonesia to France”. Since taking over as chief executive in 1998, he has deliberately devolved power from the centre. By loosening the grip of his predecessor, Michael Quinlan, Mr Greenberg has rebuilt tattered relationships with franchisees, who run four-fifths of the restaurants, and has given them more freedom to decide everything from marketing to new additions to the menu.

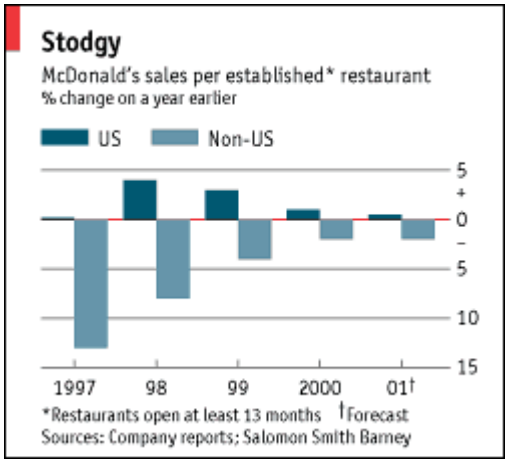
Fine, except that this decentralisation has taken its toll on the main pillars of the McDonald's brand: service, quality and cleanliness. Founded by Ray Kroc in 1955, the chain built its success less on the taste of its food than on rock-solid standards and unfailingly good service. Famously obsessive (as a retiree he would spy on his local McDonald's with a telephoto lens), Mr Kroc's saying that “if you've time to lean, you've time to clean” passed into company folklore.

Things are different under Mr Greenberg. In the United States, which still accounts for half the business, surveys show customer satisfaction falling below levels at rivals such as Wendy's and Burger King. McDonald's market share is flat, with customers defecting not only to obvious rivals, but to coffee shops and delicatessens. Add in nasty distractions such as mad-cow food scares in Europe, and the company's performance is now as soggy as some of its burgers.

On October 29th the company gave warning that profits in 2002 would miss expectations. Real sales growth has fallen (see chart), margins are shrinking and returns on investment are declining as the group pours capital into new stores. The “Mcbrand” even lost value last year, according to Interbrand, a consultancy.

Mr Greenberg is trying to stem the decline. On October 17th, on the heels of a management shake-up in May, he announced a restructuring that cuts the number of regional divisions in America from 37 to 21, and adds a new layer of management to monitor quality and impose tougher standards on franchisees. But cynics point out that the part of the business now most in trouble—the home market—is the one Mr Greenberg tried to restructure before becoming chief executive. He also bears some of the blame for

slipping standards. His introduction of the “Made-For-You” food-assembly system failed to boost sales, and took staff away from serving customers. Michael Roberts, the head of McDonald's US, says that the latest restructuring will involve, among other things, simplifying a menu that started out with three items but now offers 75.



McNice Guy

One of Mr Greenberg's problems is that he is nice. For a former accountant, he is decidedly human. He likes a joke, has created a warm culture at head office in Oakbrook, Illinois, and is humble about past mistakes, admitting that “we've been distracted from running great restaurants by our growing complexity.” His open manner contrasts with the single-minded arrogance that cost a former Coca-Cola boss, Doug Ivester, his job in 1999. But this amiability may make it difficult for him to face up to the tough choice now facing McDonald's: should it continue to be run as a loose federation of local franchises that can be expanded rapidly, albeit at the risk of falling standards? Or should it become a more tightly controlled global group that sacrifices some growth to maintain quality?

Although Mr Greenberg's latest move appears to inch the company down the second path, he remains gung-ho at heart, promising to open some 1,400 stores next year, the same number as this year. “We are not mature in any markets even after 46 years,” he says. “New store openings will always be important and in time will accelerate.”

As the network of franchisees grows, Mr Greenberg seems afraid to tinker with it. While Mr Roberts is keen on fewer, stronger franchisees with bigger territories, his chief executive has reservations about any such overhaul. “The relationship with franchisees is so important to us, it may get in the way of us being honest,” he admits.

Yet the stockmarket would like to see a tighter, more centralised McDonald's. Instead of aggressive expansion, investors want McDonald's to concentrate on the profitability of existing stores. Excess cash might be better used repaying debt or buying back shares—this week, after its profit warning, McDonald's announced a second buy-back programme, this time worth $5 billion, roughly 15% of its outstanding shares. Or it might develop the group's newer pizza, sandwich and Mexican-food chains, rather than raising yet more golden arches. Yet, as Coca-Cola and others have already found, and Mr Greenberg is only now discovering, managers who excel at driving forward a fast-growing business are often unsuited to running one that is slowing down.

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A financial black hole

Houston, we have a problem

Nov 1st 2001 | HOUSTON, LONDON AND NEW YORK
From The Economist print edition

AP

The troubles of Enron, a Texan powerhouse in the energy markets, could result in a new financial crisis

Get article background

JUST last year, visitors to Enron's glittering headquarters in Houston were greeted by a giant banner that proclaimed the firm, “The world's leading energy company”. That annoyed Enron's smaller energy-trading rivals, many of which have offices only a stone's throw away in Houston's Energy Alley, but not as much as what came next—a new banner, declaring Enron “The world's leading company”. In recent weeks, as the company has been engulfed by a financial crisis, that banner has quietly been removed.

The heady mix of audacity, ambition and arrogance revealed by the banners is as good a guide as any to Enron's remarkable rise and fall. Forged in the 1980s by the merger of two troubled gas-pipeline firms, Enron drove the development of the sophisticated spot-and-derivatives markets in energy that it has come to dominate. Indeed, such is the scale of its operations, and its dealings with many of the world's financial institutions, that some observers see parallels with Long-Term Capital Management (LTCM), the hedge fund that failed in 1998—and not just because seemingly brilliant financial alchemists have been humbled. Were Enron to go bust—unlikely, but in the current nervous climate, not impossible—might a crisis ensue?

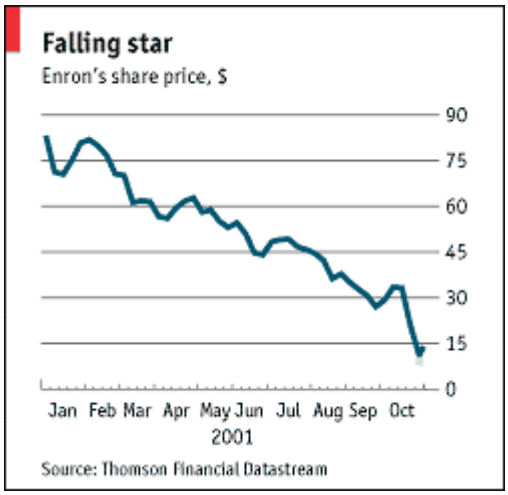
Troubles in California's politically crazed power market, an ill-advised foray into telecoms bandwidth trading and concerns about management badly dented Enron's share price earlier this year, prompting the departure of Jeffrey Skilling, the firm's newish chief executive, in August. Kenneth Lay, an avid free-marketeer, friend of George Bush and visionary chairman of the firm, was obliged to resume hands-on control.

This has not slowed Enron's decline. Day by day, it seems to be sinking deeper into a financial quagmire that is largely of its own creation. Not least thanks to its lack of transparency, the firm's credibility with the markets has eroded to the point that talk of a possible takeover or even bankruptcy is widespread.

Enron's reputation for financial wizardry has been turned from an asset to a liability since its third-quarter results came out in mid-October, showing a $1 billion write-off on water distribution, broadband trading and other investments. Worse, disclosed only in passing by Mr Lay in a conference call with analysts, the firm suffered a $1.2 billion reduction in capital, stemming from a hedging deal with a related private-equity fund called LJM. The charge was due to Enron's forced sale of 55m of its own

shares when the partnership was unwound this summer. Almost nobody outside Enron had been aware of the terms of the deal with LJM, a “structured finance vehicle”.

Enron's failure to offer details about the risks from other related partnerships have led many to fear the worst about its huge balance sheet. Its shares plunged by 19% on October 30th alone (see chart), before recovering a bit the next day.



Andrew Fastow, who was replaced as chief financial officer on October 24th, was a general partner in LJM. Jeffrey McMahon, his successor, has much to do to restore confidence. Questions abound. Were the trusts run at arm's length? What did Mr Fastow earn from the partnership? Ominously, the Securities and Exchange Commission (SEC) has now launched a formal inquiry.

Moody's, a rating agency, last week cut its rating on the company's debt to barely above “junk” level. Further downgrades might unleash claims from other off-balance-sheet partnerships. Those known about, such as Atlantic Water and Marlin Water, do not seem big enough to bankrupt Enron, but speculation is rife about what other obligations might lurk secretly in other structured vehicles.

A lower credit rating could destroy Enron's core franchise as the leading energy middleman, by scaring away customers and freezing the wholesale energy markets. That might have nasty consequences in other markets. Enron acknowledges that it is a large participant in the derivatives market, holding a portfolio with a notional value of $21 billion. Rightly or wrongly, many traders believe that figure vastly understates Enron's presence. If the firms on the other side of Enron's trades start to fear that payment is not coming, they might curb their other trading, producing a knock-on effect. Where this could end up is a subject of much conjecture.

Utilities that trade energy could be hit. So could the commodity and derivative operations of large commercial and investment banks. The ties are notably tight between Enron and J.P. Morgan Chase, according to Ventana Capital, a research firm. Not only does J.P. Morgan provide innumerable separate credit arrangements for Enron; it also has the largest derivative operation of any bank, as well as a large business trading commodities. There is “no doubt” that Enron is on the other side of many J.P. Morgan trades, says Ventana.

Were Enron to fail, Ventana thinks “it has the potential to cause a major financial crisis”, worse, in some ways, than what occurred after LTCM. That merely froze the debt markets temporarily, whereas Enron deals in the building-blocks of the American economy. Imagine gridlock in the markets for gas, timber, coal, metals, fertiliser, bandwidth or indeed any of the products Enron deals in.

As yet, this all seems unlikely. Many big traders were happy to deal with Enron this week, although at shorter maturities and with less complex structures than in the past. Trading on EnronOnline was reportedly strong. Jim Donnell of Duke Energy, a big energy trader, described “a huge dichotomy” between the collapse in confidence in Enron in the equity and credit markets and the “business as usual” attitude taken by big commodity trading firms when considering Enron as a counterparty.

Yet as questions about Enron's credit-standing spread this week, it began to have difficulty making markets in some instruments. Few firms would accept Enron's name as guarantor of a credit derivative. In its core energy markets some big trading counterparties refused the Enron name. On the Intercontinental Exchange (ICE), two houses reportedly specified that they would not take Enron's credit.

The biggest credit exposure appeared to be with banks, whose $3 billion of back-up lines to Enron were drawn down last week. J.P. Morgan arranged an additional $1 billion emergency credit-line this week. This back-up, it is widely assumed, is needed mainly to meet margin calls triggered by the ratings downgrade.

Too big to fail?

Is Enron too big and too important to be allowed to fail? Philip Verleger, an energy economist, thinks that Enron is so central to energy markets that it could not easily be replaced. Enron's rivals mostly disagree,

unsurprisingly.

But even Enron's worst enemies do not (yet) expect the firm to die from its current crisis. Most traders seem keen that it should live. “Nobody likes to see a wholesale trader disappear,” says one. They admire Enron's armies of traders and their ability to do deals. EnronOnline is one of the Internet's few success stories, assuming its huge trading volumes do indeed generate big profits, as the firm claims.

Enron's, and the financial system's, problems could worsen if doubts grow about its ability to meet its obligations. On the surface it is rich in assets, if not cash. But its lack of transparency leaves uncomfortable room for doubt. In June 2000, *The Economist* challenged Mr Lay to reply to accusations of arrogance, high-handedness and a propensity to push the limits of the law. His response was revealing. To show that such charges were baseless, he pointed to another firm unfairly maligned by critics: Drexel Burnham Lambert, an investment bank that rose from obscurity to market prominence in the junk-bond boom of the 1980s. Drexel was accused of arrogance, he groused, but it was only being “very innovative and very aggressive”. Drexel was not bailed out: Michael Milken, its star, ended up in jail, and Drexel collapsed in a heap of bad debts and ignominy.

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About sponsorship

Fixing broken companies

A matter of life and death

Nov 1st 2001 | NEW YORK
From The Economist print edition

As the economy worsens, the banker of the moment is a corporate repairman

ONE bank with a big exposure to Enron is J.P. Morgan Chase. Thanks to its pre-eminence in syndicated lending, it is exposed to many other troubled firms too. The man in charge of fixing many of them is William Repko, a rumpled 52-year-old who started in banking in the mid-west, just as it was being transformed from America's industrial heartland into rust-belt. He has made a career of financial emergencies ever since.

Such experience means little in a boom but everything in a bust. Mr Repko's roster of patients has soared from a handful in 1997 to 50 today. They include Lucent, Polaroid, Nortel and Federal Mogul—as well as other big, once glamorous, firms that have not made public their use of Mr Repko, or are exploring a relationship.

Revenues for Mr Repko's restructuring group will rise fivefold in 2001, rare growth indeed for a financial business in today's markets. That is particularly good news for Morgan, given its ballooning portfolio of bad loans. If it cannot collect on its loans, it might as well collect fees from their reconfiguration—which can be 3% of face value.

For a troubled firm, qualifying as Mr Repko's patient is often a first sign of hope. The bank dumps true disasters into its “work-out” division, which tries to recover as much money as it can from the corpse. By contrast, Mr Repko tends only to firms that are believed to be salvageable as businesses (and clients): Lucent, for example.

In February, the telecoms-equipment firm's customers were vanishing alarmingly. Cashflow, which had been positive by several million dollars last year, was certain to be negative by many billions of dollars this year. Morgan quickly helped to provide an emergency loan, was a co-manager for the spin-off of Agere Systems, a microelectronics subsidiary, and then advised on the sale of Lucent's fibre-optic cable division. That produced lots of fees for the bank and enough cash to buy Lucent the time to make vital, if brutal, cost cuts. Nortel, another telecoms firm, has gone through a similar process.

Mr Repko is typically called in when the capital markets decide that a firm is too badly wounded to justify helping it. If the markets are too pessimistic, which is not unusual, this can be a great opportunity.

Bonds issued by many telecoms firms currently trade in the public markets for a few cents on the dollar. A joint effort to extinguish these debts at low cost is now taking place involving the troubled borrowers, Mr Repko and Jimmy Lee, a colleague who became a star on Wall Street by selling debt at full price several years ago and who now seems to be making a comeback fixing his own bad loans.

Every slump has its unique characteristics. The biggest challenge this time round for Mr Repko, and for his handful of counterparts at other banks, is not fixing poor management, as in the 1970s, or rescuing essentially sound businesses from under a mountain of excessive debt, as in the 1980s. It is uncertainty over a troubled firm's prospects for the next quarter, and the next year. “I ask what are the expectations for the business,” says Mr Repko. The typical response: “I don't know.”

That makes it hard to rescue the firms using traditional loan agreements, which are laden with covenants tied to hitting (or failing to hit) operating targets such as those for sales or cashflow. But there are still some options, such as borrowing directly against a firm's (necessarily ring-fenced) future income from, for example, trade receivables, a pipeline or a building.

Despite his bulging client list, Mr Repko says he is turning away an unprecedented number of companies.

The usual reason is that their assets are impossible to value or that it seems impossible to devise a viable business plan. In short, restructuring, even under Mr Repko, cannot shore up what should never have been structured at all.

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New-old Russian finance

Bait, switch, swallow, gulp

Nov 1st 2001 | MOSCOW
From The Economist print edition

Russia's new business class still has some bad old habits

IN MOST countries it would be illegal. Even in Russia it is questionable. The main shareholders in Sibneft, the country's sixth-largest oil company, sold a 27% chunk of their shares to the firm and bought it back a few months later.

This was odd for three reasons. First, the company says only that the shareholders paid with a “mixture” of cash and other assets—but without specifying the details. The “assets” could be worth anything, or maybe nothing. Second, the shareholders bought back their stake just in time to collect a juicy dividend of around $150m—far more than the paltry $26m the company says it made in the share shuffle.

Third, until its terse press release announcing the deal, Sibneft was trying to shake off its murky past and present a shiny new shareholder-friendly image. “At the heart of our philosophy is transparency, and we believe that we have set a new benchmark for openness in the Russian corporate sector”, says the blurb on the company's website.

Investors were horrified, and the share price fell by 20% on the news. Criticism was near universal. But it was sharpest of all from one seasoned Moscow equity analyst, Eric Kraus of Nikoil, an investment bank, who wrote: “Several weeks ago we termed Sibneft ‘former bandits'—the term ‘former' is now open to serious challenge.”

Sibneft's tycoon owners claimed first to be amazed and then furious at the negative reaction. They leant on Nikoil, which is believed to be hoping for some corporate-finance business from Sibneft, to fire Mr Kraus on the spot. Nikoil persuaded them that this would make matters worse. Instead it told Mr Kraus—one of the most talkative and quotable bankers in Moscow—to “keep a low profile”. That prevents him from talking about the affair. No doubt he will find another job soon.

The company continues to make pretty feeble excuses for the deal. But it also says that there will be no such transactions in future. So that's all right, then.

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About sponsorship

Securities exchanges

After Liffe

Nov 1st 2001
From The Economist print edition

Will more consolidation follow the sale of London's derivatives exchange?

Get article background

JEAN-FRANCOIS THEODORE, the head of Euronext, is a surprise winner. The London Stock Exchange (LSE) was widely expected to triumph in the bidding for Liffe, London's derivatives exchange. Yet on October 29th the board of Liffe recommended that its shareholders accept a £555m ($806m) offer from Euronext, the three-way merger between the Paris, Amsterdam and Brussels stock exchanges. Although Euronext's offer was less than the LSE's, it was all in cash (not in combination with shares). It also promised to retain Liffe's management, and to shift all of Euronext's derivatives business to London to trade on Connect, Liffe's trading system. That combination made it unbeatable.

Euronext's coup is a blow for the LSE, which had hoped that buying Liffe would strengthen its position in the forthcoming consolidation of European stock exchanges. But the LSE misplayed its hand, advertising its interest for too long in advance and then quibbling over too many details with Liffe's management. It will now have to find some other strategic option if it is not to become prey to one of its rivals. Setting up its own derivatives business will be hard: it might instead seek to buy one of the American exchanges, perhaps the Chicago Mercantile.

The third big European stock exchange, Deutsche Börse, which had also bid for Liffe, will also have to find an alternative. Yet one obvious idea, to resurrect last year's abortive marriage between it and the LSE, will be hard to do under the two exchanges' present management, because the bust-up was so acrimonious. That may put Euronext in the best position to become the dominant European exchange.

Europe's investors may not care so long as trading becomes cheaper and easier. Anyway, most of them fret more about improving clearing and settlement in Europe, which is much more expensive than in America and so offers greater scope for savings. The Liffe/Euronext deal immediately triggered speculation about which European clearing houses might now merge. The London Clearing House (LCH), which clears trades on Liffe, had inconclusive talks last year with Clearnet, which clears Euronext trades. A merger would now be logical. Less obvious is which way the Luxembourg-based Clearstream will jump. On October 31st it received offers from Deutsche Börse (which already owns 50%) and Brussels-based Euroclear, the biggest clearer of international bonds.

Deutsche Börse is keen to own all of Clearstream. This would create the first big European “silo”, in which trading, clearing and settlement have a single owner. Werner Seifert, chairman of Deutsche Börse, has long championed silos, which he thinks provide the reliability required by the market. Critics reckon vertical silos distort competition. Benn Steil at the Council on Foreign Relations in New York says that Deutsche Börse might impose discriminatory tariffs on non-German-based traders in German shares if it were to own all of Clearstream. Others point to possible cross-subsidy from the monopolised settlement arm to the trading platform.

One alternative is the horizontal integration of settlement agencies and clearing-houses, to create large central counterparties—maybe two or three for the whole of Europe. Traders would then be able to net their cash and derivatives positions on several exchanges with a single clearing house, saving capital. Don Cruickshank, chairman of the LSE, thinks the European Commission in Brussels should go further and impose a single European clearing and settlement system like America's.

That is a very long shot. It took the intervention of Congress and the Securities and Exchange Commission to set up the Depository Trust and Clearing Corporation—which moved American non-government securities markets from seven settlement agencies to one settlement organisation and one

central counterparty. Besides the defenders of silos, the European Commission would have to contend with a different regulatory and legal system in each member country. More realistically, market forces will drive clearing and settlement houses to join forces, because it is more cost-efficient when buyer, seller and security are linked.

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About sponsorship

Investment banking

Men overboard

Nov 1st 2001
From The Economist print edition

High-profile departures are raising hard questions about the future of Lazard

ARE the rats leaving a sinking ship? The resignation of David Tashjian as head of Lazard's capital-markets division on Tuesday, barely a week after William Loomis quit as chief executive, is the latest in a string of high-profile departures from Lazard. All does not seem well at the upper-crust banking group that was founded over 150 years ago by the brothers Alexandre, Simon and Elie Lazard. Neither a merger of its three semi-autonomous London, Paris and New York firms, nor an attempt to simplify a complex ownership structure, have done the trick. It is still beset by internecine strife. Worse, it continues to falter in its core merger and acquisition advisory (M&A) business.

Nobody has lasted long as number two to Michel David-Weill, the firm's flamboyant chairman—who divides his time between homes in Paris, New York, Cap d'Antibes and Long Island, and is an avid collector of old master paintings. Yet Mr Loomis's decision to step down after only a year was a surprise. The American, an unusually scholarly banker, had been picked by Mr David-Weill for his administrative skills, to oversee the integration of the main parts of the bank. Sources close to the firm say he was worn out by trench warfare between partners in Paris, London and New York and in investment-management, who accused him of following Mr David-Weill's line too closely.

Leaving Lazard now seems all the rage. David Verey, the London chairman, left in May after nearly 30 years to join Cazenove, an even more upper-crust rival in London. Pierre Tattevin, a top dealmaker in Paris, fled to Rothschild last year, joining Gerald Rosenfeld, another former Lazard partner. Even Edouard Stern, Mr David-Weill's son-in-law, left in 1997 after disagreement over strategy. New York has been hit the hardest. Tired of the infighting—or outwitted by Mr David-Weill—Steven Rattner, a deputy chief executive, quit last year to start Quadrangle, an investment firm, taking three partners (and more clients) with him.

Clients have joined partners in voting with their feet. Lazard's market share in M&A has dwindled. Its worldwide ranking has slipped to 12th this year, from 6th in 1997. True, it remains strong in France, where it has advised Vivendi, a utility-turned-media company, on dozens of deals including its purchase of Seagram, owner of Universal Studios in America. Jean-Marie Messier, a former Lazard partner, runs Vivendi. The bank is also strong in Italy, thanks to the connections of Gerardo Braggiotti, formerly of Mediobanca—a bank once said to control Italian industry—who runs Lazard's European operations outside France and Britain.

Prominent minority shareholders such as UBS Warburg and Vincent Bolloré, a French financier, continue to grumble about the inefficiency of Lazard's byzantine ownership structure. About two-thirds of the bank is owned by its working partners; the rest is controlled by Mr David-Weill through so-called “cascades”—a network of interlocking holding companies. In November last year Mr David-Weill made some belated concessions to complaints about the poor valuation of minority shareholders' stakes by starting to buy them out of one of the holding companies, eliminating one level of a corporate structure that was six companies deep. Mr Bolloré seized the opportunity and sold almost all of his interests in Lazard (a 31% stake in Rue Impériale de Lyon, one of Lazard's holding companies) to Crédit Agricole, France's biggest mutual bank.

What now? So far Mr David-Weill, who directly controls 22.4% of Lazard with three former partners and their families (André Meyer, Jean Guyot and Antoine Bernheim), has refused to sell or float the firm on the stockmarket. But Deutsche Bank has hinted before that it would like to buy Lazard. Mediobanca and Cazenove have been mooted as potential candidates for a merger of equals, which marriage to giant Deutsche would not be.

Most intriguingly of all, Crédit Agricole has been tightening its links with Lazard, in a manner which is friendly and flirtatious rather than threatening. If they promise to keep the name and honour the traditions of *la maison*, a once unthinkable coming together of France's farmers' mutual and its most aristocratic bank might not be out of the question.

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About sponsorship

World Trade Organisation

A deal at Doha?

Nov 1st 2001 | WASHINGTON DC
From The Economist print edition

The launch of a round of global trade talks is close, if politicians compromise

QATAR is known nowadays chiefly as home of al-Jazeera, Osama bin Laden's favourite television station. But next weekend the Gulf state will host hundreds of trade ministers and officials at the biennial meeting of the World Trade Organisation (WTO). Security concerns have slimmed delegations and scared off hangers on (Qatar is only 1,000 miles from Afghanistan and full of workers from other Muslim countries). But, so far, none of the WTO's 142 members has pulled out. Their goal is to launch a new trade round, successor to the Uruguay round that ended in 1994 and created the WTO.

This has long seemed a faint hope. The WTO's gathering in Seattle in December 1999 was an embarrassing failure, with acrimony between delegates and massive anti-globalisation protests on the streets. Only a few months ago, deep divisions, both between poor and rich countries and among the rich countries, over the desirability, scope and substance of a new trade round looked insurmountable.

That has now changed. Ministers will arrive in Doha on November 9th with a draft declaration that is widely applauded as a plausible basis for final agreement. Hammered out by Stuart Harbinson, the Hong Kong chairman of the WTO's general council, the draft offers some gain (and some pain) for everybody. As well as further commitments to reduce barriers in goods and services, agriculture—a priority for America and many developing countries—is firmly on the agenda. The draft text commits WTO members to improve market access for farm products, reduce, “with a view to phasing out”, agricultural export subsidies and cut trade-distorting domestic support.

The European Union, long the loudest advocate of a broad round of trade talks, gets an implicit commitment to future negotiations on multilateral rules for investment and competition (though decisions on how to negotiate these are put off until 2003). The draft commits WTO members to revisit rules on anti-dumping and subsidies with the goal of “clarifying and improving” them, a priority for Japan and South Korea. Poor countries, which have long felt they were unfairly treated in the Uruguay round, get some favourable changes to that earlier round's commitments. The draft also commits the WTO to look at other “implementation” issues that stem from the Uruguay round.

Unfortunately, there are still several big obstacles to an agreement. Europe and Japan are dragging their feet on freeing up agricultural trade; Europe, in particular, is balking at any commitment to end export subsidies. The Europeans also claim the draft text is too weak on environmental concerns, but others see Europe's emphasis on the environment as a back-door way of reintroducing agricultural protection.

America, meanwhile, is resisting any efforts to accelerate textile liberalisation (as part of the “implementation” concessions offered to poor countries), and it is loth to renegotiate anti-dumping rules. In both cases the administration faces strong political pressure from powerful lobbies with close ties to congressmen. This pressure is acute now, as the Bush administration has still to win fast-track negotiating authority from Congress—a prerequisite for America's effective participation in any multilateral trade negotiations. Fast-track (now renamed trade-promotion authority) lapsed in 1994 and has been a divisive political issue ever since. A vote is looming in the House of Representatives.

America is also resisting efforts to water down the agreement on intellectual property rights (known as TRIPS) originally negotiated in the Uruguay round. Arguments over how to clarify TRIPS in light of the AIDS crisis and other pandemics are now the biggest threat to launching the round. A group of developing countries, led by South Africa, Brazil and India, wants a blanket exemption to TRIPS obligations in the interests of public health. America and other developed countries want a narrower interpretation confined to access to affordable medicines in public-health crises. Unable to broker a compromise, the draft currently offers both options.

With luck, ministerial negotiations during November 9th-13th will resolve these problems. The world, and poor countries in particular, have an enormous amount to gain from a new trade round. In its most recent forecast of prospects for poor countries, published on October 31st, the World Bank calculates the impact of global trade liberalisation. Once the impact of greater openness on productivity is taken into account, the Bank reckons that the elimination of import tariffs, export subsidies and domestic production subsidies would increase global income by $2.8 trillion over ten years, with well over half the benefits going to poor countries.

A new round of global trade talks may not result in the elimination of barriers. But it could go a long way, particularly for the textiles and agricultural products that matter most to poor countries. That is why the Doha delegates cannot afford to fail.

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American Treasury bonds

Cut short

Nov 1st 2001
From The Economist print edition

The Treasury halts its 30-year bond programme

THE American Treasury's announcement that it will issue no more 30-year bonds should delight corporate treasurers and depress fund managers. Cynics also suggest that Peter Fisher, under-secretary at the Treasury, made this move to help Alan Greenspan, chairman of the Federal Reserve Board, bring down long-term interest rates, in a fair imitation of a bull market.

The 30-year Treasury bond has been illiquid for some time because until recently America had been retiring debt. Now that the country is a net borrower again, it is the wrong time to take long-term debt off the menu, say Mr Fisher's critics. Many have a vested interest, however. The Chicago Board of Trade, which usually carries great clout in Washington, immediately protested that economic uncertainty since September 11th obliges the Treasury to keep all its funding options open, including at the long end. It is worried about losing its flagship 30-year-bond futures market.

Bond traders, as well as inter-dealer brokers, such as Cantor Fitzgerald, will now have to satisfy themselves with shorter maturities—these are more liquid, but with less of the volatility that dealers love. Those traders and investment banks that cover their 30-year trading positions with repos (bond sales and repurchases) will find life more expensive—they will ultimately have to buy and sell corporate bonds, which carry credit risk, rather than supposedly risk-free government bonds. Perhaps they will use British 30-year gilts instead.

There are winners. Swap dealers and long-term bond issuers, notably two government agencies, Fannie Mae and Freddie Mac, should find more demand for their 30-year bonds. It will please, too, those who think interest-rate swap rates a better benchmark than Treasuries for pricing fixed-income securities.

The biggest gripe will come from insurance companies and pension funds with long-term liabilities—especially defined-benefit pension plans. Long-term rates may be lower but will now come with credit risk attached. Surely Mr Fisher read a paper published in July by the American Academy of Actuaries entitled “The Impact of Inordinately Low 30-year Treasury Rates on Defined Benefit Plans”? If he did, this plea to spare the life of 30-year Treasuries failed to move the man of steel.

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Economics focus

Sinking like a soufflé

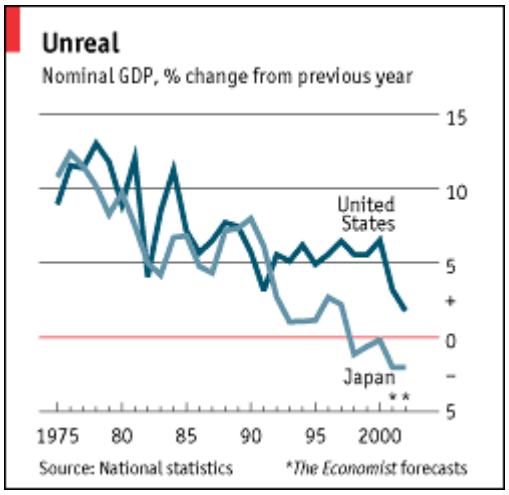
Nov 1st 2001
From The Economist print edition

The slowdown in nominal GDP growth is of more than nominal interest

HEADLINES this week proclaimed that America's GDP had shrunk for the first time in more than eight years. They focused on real GDP, adjusted for inflation, which fell at an annual rate of 0.4% in the third quarter, a smaller drop than had been expected. Real GDP is widely forecast to fall again in the fourth quarter, meeting the popular definition of a recession. Less noticed, but perhaps more worrying, is the slump over the past year in America's nominal GDP growth, the dollar value of economic activity.

In plain, not-adjusted-for-inflation, money terms, GDP growth tumbled to only 1.8% in the third quarter, from 8% in the second quarter of 2000. As both output and inflation decline, nominal GDP growth will slide further; it could even go negative. On current trends, 2001 and 2002 are likely to experience the slowest growth in nominal GDP in any two consecutive years since the 1930s.

The reason why nominal GDP growth is so sluggish is that America entered this recession with inflation at a historically low level. The start of every previous downturn in the past four decades has been marked by rising inflation. This prompted central banks to lift interest rates, leading to a recession, even as inflation remained high for a while.



America's current recession, however, has been caused largely by an investment boom that has turned to bust. Increased competition and ample global capacity—along with (arguably) sound monetary policy—have held down prices. Inflation is likely to fall further over the next few years as global excess capacity weighs on prices. According to the University of Michigan's latest consumer survey, inflationary expectations have fallen to their lowest for more than 40 years.

Inflation is declining everywhere; and nominal GDP is also falling in several economies around the world. The most dismal case is Japan, where deflation has helped nominal GDP to fall continuously since 1997. The Bank of Japan forecast this week that it will continue to decline into 2003. Nominal GDP is also shrinking in Singapore, Hong Kong, Taiwan, Malaysia and Argentina. For the world as a whole nominal GDP growth has fallen to around zero, its lowest since the 1930s.

“So what?” you might ask. Real GDP growth is surely the best measure of economic prosperity, and low inflation is a good thing. Yes, but profits and wages cannot together outgrow nominal GDP. The unusually slow growth in nominal GDP therefore has important implications in four main ways:

•**Profits**. Slower nominal GDP growth implies slower growth in profits than most company analysts are assuming in their forecasts for share prices. Indeed, if nominal GDP growth is static or falling, but labour costs (two-thirds of total costs) continue to rise, profits will be even smaller. This provides further evidence that, on the economic fundamentals, American shares remain, on average, significantly overvalued. Also, if revenues do turn out to be flat, the only way to lift profits will be to cut costs by firing workers or cutting wages, thereby risking a deepening of the recession.

•**Wages.** Fewer workers are likely to enjoy a pay rise next year. Annual pay rounds are facing extinction. America's National Association of Business Economists' latest survey found that in the third quarter only 17% of firms raised wages, and 6% cut them—the lowest net increase in the 20-year history of the

survey. True, small nominal pay rises will still give a real pay increase if inflation is lower. The snag is that people suffer from “money illusion”—confusing nominal changes with real—and so may feel worse off, saving more and spending less.

•**Debts**. In the recent boom, American households and firms went on a borrowing binge. Debts (and in many cases interest payments) are fixed in money terms, so the faster nominal incomes grow, the smaller the burden of debt becomes. In Japan, in contrast, declining nominal GDP is swelling the debt-to-GDP ratio. The risk in America now is that slower nominal growth will force firms and individuals to improve their balance sheets by spending less or by selling assets, exacerbating deflationary pressures.

•**Monetary policy**. The good news is that low inflation gives central banks less reason to resist cutting interest rates. After nine cuts this year, American rates are already at their lowest in almost 40 years. But plunging nominal GDP growth means that central banks should do more.

One rule of thumb for judging the stance of monetary policy is that, when nominal interest rates are higher than nominal GDP growth, monetary policy is tight. When rates are lower than nominal growth, policy is loose. The broad thinking behind this is that when interest rates (the return on liquid financial assets) are higher than nominal GDP growth (a proxy for the rate of return on the real economy) the private sector has little incentive to invest in the real economy and instead keeps its money in the bank.

By this yardstick monetary policy is still too tight in America. Interest rates are now 2.5%, while nominal GDP growth in the year to the fourth quarter is likely to be less than 2%. The Federal Reserve ought therefore to cut rates again at its meeting on November 6th. Japan's nominal GDP fell by about 2.5% in the past year, but interest rates cannot go below zero, so its monetary policy is also too tight. In the euro area, interest rates are 3.75%, above estimated nominal GDP growth of 3-3.5%.

In an ideal world, central banks should probably be aiming to keep annual nominal GDP growth at around 4-5%, leaving room for real growth of 2-3% alongside modest inflation. It is worrying that all three of the big central banks seem to be veering off-course.

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Oil depletion

Sunset for the oil business?

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From The Economist print edition

Corbis

The world is about to run out of oil. Or perhaps not. It depends whom you believe

IF YOU think OPEC ministers are a conspiratorial cabal, you ought to meet the Oil Depletion Analysis Centre (ODAC). This colourful group is convinced that the world is perilously close to an oil shock induced by scarcity, not politics. Several dozen of its members got together recently in an auditorium at Imperial College, London, for a peculiar planning session.

Leading lights of this movement, including Colin Campbell, a geologist and author of “The Coming Oil Crisis”, presented technical data that supported their grim prognosis. Various experts ridiculed rival analyses, done by America's Geological Survey and the International Energy Agency (IEA), that contradicted their views. Dr Campbell even decried the “amazing display of ignorance, deliberate ignorance, denial and obfuscation” by governments, industry and academics on this topic.

So is the oil really running out? The answer is easy: Yes. Nobody seriously disputes the notion that oil is, for all practical purposes, a non-renewable resource that will run out some day, be that years or decades away. The harder question is determining when precisely oil will begin to get scarce. And answering that question involves scaling Hubbert's peak.

M. King Hubbert, a Shell geologist of legendary status among depletion experts, forecast in 1956 that oil production in the United States would peak in the early 1970s and then slowly decline, in something resembling a bell-shaped curve. At the time, his forecast was controversial, and many rubbished it. After 1970, however, empirical evidence proved him correct: oil production in America did indeed peak and has been in decline ever since.

Dr Hubbert's analysis drew on the observation that oil production in a new area typically rises quickly at first, as the easiest and cheapest reserves are tapped. Over time, reservoirs age and go into decline, and so lifting oil becomes more expensive. Oil from that area then becomes less competitive in relation to other fuels, or to oil from other areas. As a result, production slows down and usually tapers off and declines. That, he argued, made for a bell-shaped curve.

His successful prediction has emboldened a new generation of geologists to apply his methodology on a global scale. Chief among them are the experts at ODAC, who worry that the global peak in production will come in the next decade. Dr Campbell used to argue that the peak should have come already; he now thinks it is just round the corner. A heavyweight has now joined this gloomy chorus. Kenneth Deffeyes of Princeton University argues in a lively new book (“The View from Hubbert's Peak”) that global oil production could peak as soon as 2004.

A slippery slope

That sharply contradicts mainstream thinking. America's Geological Survey prepared an exhaustive study of oil depletion last year (in part to rebut Dr Campbell's arguments) that put the peak of production some decades off. The IEA has just weighed in with its new “World Energy Outlook”, which foresees enough oil to comfortably meet demand to 2020 from remaining reserves. René Dahan, one of ExxonMobil's top managers, goes further: with an assurance characteristic of the world's largest energy company, he insists that the world will be awash in oil for another 70 years.

Who is right? In making sense of these wildly opposing views, it is useful to look back at the pitiful history of oil forecasting. Doomsters have been predicting dry wells since the 1970s, but so far the oil is still gushing. Nearly all the predictions for 2000 made after the 1970s oil shocks were far too pessimistic. America's Department of Energy thought that oil would reach $150 a barrel (at 2000 prices); even Exxon predicted a price of $100.

Michael Lynch of DRI-WEFA, an economic consultancy, is one of the few oil forecasters who has got things generally right. In a new paper, Dr Lynch analyses those historical forecasts. He finds evidence of both bias and recurring errors, which suggests that methodological mistakes (rather than just poor data) were the problem. In particular, he faults forecasters who used Hubbert-style analysis for relying on fixed estimates of how much “ultimately recoverable” oil there really is below ground, in the industry's jargon: that figure, he insists, is actually a dynamic one, as improvements in infrastructure, knowledge and technology raise the amount of oil which is recoverable.

That points to what will probably determine whether the pessimists or the optimists are right: technological innovation. The first camp tends to be dismissive of claims of forthcoming technological revolutions in such areas as deep-water drilling and enhanced recovery. Dr Deffeyes captures this end-of-technology mindset well. He argues that because the industry has already spent billions on technology development, it makes it difficult to ask today for new technology, as most of the wheels have already been invented.

Yet techno-optimists argue that the technological revolution in oil has only just begun. Average recovery rates (how much of the known oil in a reservoir can actually be brought to the surface) are still only around 30-35%. Industry optimists believe that new techniques on the drawing board today could lift that figure to 50-60% within a decade.

Given the industry's astonishing track record of innovation, it may be foolish to bet against it. That is the result of adversity: the nationalisations of the 1970s forced Big Oil to develop reserves in expensive, inaccessible places such as the North Sea and Alaska, undermining Dr Hubbert's assumption that cheap reserves are developed first. The resulting upstream investments have driven down the cost of finding and developing wells over the last two decades from over $20 a barrel to around $6 a barrel. The cost of producing oil has fallen by half, to under $4 a barrel.

Such miracles will not come cheap, however, since much of the world's oil is now produced in ageing fields that are rapidly declining. The IEA concludes that global oil production need not peak in the next two decades if the necessary investments are made. So how much is necessary? If oil companies are to replace the output lost at those ageing fields and meet the world's ever-rising demand for oil, the agency reckons they must invest $1 trillion in non-OPEC countries over the next decade alone. Ouch.

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Oil extraction

Lateral thinking

Nov 1st 2001 | WASHINGTON, DC
From The Economist print edition

An unusual way to extract oil is about to be field-tested

IS IT possible for oil drilling to leave a lighter footprint on the earth? Maybe. Within weeks, a Houston-based start-up called Omega Oil plans to start testing a method that has been contemplated for many years but never put into practice. With technical assistance and funding from a research-and-development arm of the federal Department of Energy, Omega plans to dig a single shaft roughly 3,500 feet (1,070 metres) deep, and send dozens of lateral oil-collecting pipes out from it. Crucially, these lateral channels will be dug upwards at a slight incline from the central shaft, so that any oil in subterranean reservoirs flows out under the force of gravity. Once the shaft is in place, only a small surface facility will be needed to collect the oil and carry it away.

How small a facility? Omega's president, Wayne Kelley, says that his technology can collect oil from an 8,500-acre (3,400-hectare) site with only a modest pumphouse and storage area on the surface. By contrast, old-fashioned drilling methods would require 220 separate well-heads, and roads to connect them all. Although Omega's founders are seasoned oilmen, not environmentalists, if the technology works it might appeal to greens, because it could dramatically reduce the impact of industrial infrastructure on sensitive surface ecosystems.

Many oil experts are not yet sold on the idea. Regular maintenance will have to take place in cramped quarters beneath the earth—a much harder task than for conventional oil wells, which can be repaired on the surface. And the initial capital costs are high: the demonstration project at a federal petroleum reserve near Casper, Wyoming, is expected to cost $30m, a lot more than conventional drilling would cost (though precise comparisons are difficult). But Omega claims that, over the long term, its approach could save money on staff, maintenance and infrastructure—and recover up to twice as much oil as traditional methods.

Not everybody is sceptical, at least. American officials are eager to see the demonstration project go forward. An influential former senator, Slade Gorton, sits on Omega's board. And the project is partly funded by a dozen oil companies that hope to apply the technology. If drilling is allowed to proceed in Alaska's Arctic National Wildlife Refuge, they could argue that Omega's approach is greener than conventional methods.

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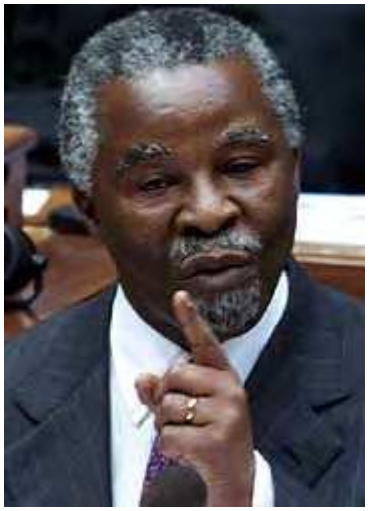
AIDS in South Africa

Deadly meddling

Nov 1st 2001 | JOHANNESBURG
From The Economist print edition

Thabo Mbeki shows no sign of giving up his misguided views on AIDS

AP



Pseudo-scientist in chief

NO POLITICIAN is a keener armchair scientist than South Africa's president, Thabo Mbeki. He sits up late searching the Internet for titbits on AIDS, the disease that is devastating Africa. He invites foreign scientists to discuss it. He encourages a South African institute, the Medical Research Council (MRC), to develop vaccines against the disease. But Mr Mbeki is a politician, not a scientist, and his cyberexcursions have led him to take a tragically misguided stance. He rejects the scientific consensus that AIDS is caused by the human-immunodeficiency virus (HIV), opining that poverty, poor diets and other social ills may be to blame. Mr Mbeki does not care that HIV "has been investigated more thoroughly than almost any other virus in the history of science", as William Makgoba, who heads the MRC, puts it.

The president also doubts statistics from the United Nations, the MRC, the World Health Organisation (WHO) and his own health ministry which show that millions of South Africans now carry the virus. In August he told the health ministry to rethink spending on AIDS, in light of "evidence" (culled from a six-year-old document on the WHO's website) that more South Africans die of violence and accidents than of the illness. This month a report by the largely government-funded MRC showed that AIDS is in fact the largest single killer in the country and could claim between 4m and 7m lives within a decade. The state statistics agency immediately attacked its methodology, but smaller-scale studies match the MRC estimates, suggesting, for example, that a fifth of university students now carry the virus.

Last week, having failed to discredit the MRC's report, Mr Mbeki took a different line, and attacked the use of powerful anti-retroviral drugs to reduce the impact of AIDS. Although these drugs are used by dozens of infected MPs and members of the government, and thousands of other South Africans, the government will not sanction them in state hospitals.

The president argues that the drugs are too toxic, too costly and are not proven to be effective. He told parliament last week that "radically revised guidelines the US government issued at the beginning of this year about treatment with anti-retroviral drugs have said that these drugs are becoming as dangerous to health as the thing they are supposed to treat". Mr Mbeki was referring to information on a website run by America's National Institute of Allergy and Infectious Diseases, which revised its AIDS-treatment guidelines in February. The new guidelines acknowledge "serious toxicities" in long-term use of anti-retrovirals, and specify a modified treatment regimen to minimise harmful side-effects without diminishing benefits to patients.

There is no question that the side-effects can be unpleasant. A study of 1,160 Swiss users of anti-retrovirals published last month in the *Lancet* found that the drugs can cause vomiting, diarrhoea, sleep disturbance, blood abnormalities and kidney dysfunction. But since the alternative is death, this does not mean that anti-retrovirals should not be used. Mr Mbeki is simply wrong to claim that the side-effects are as dangerous as the disease.

As well as prolonging life, anti-retrovirals also slow the spread of HIV by making sufferers less infectious. Yet the government objects even to the temporary use of the drugs, for example by infected pregnant women, to stop them passing the disease on to their offspring. A number of South African activist groups, including the Treatment Action Campaign, are now suing the government for not allowing one such drug, nevirapine, which is offered free by its makers, in state hospitals.

The government dismisses its critics as stooges for greedy drug companies. But government intransigence, not the cost of drugs, is the real problem. Despite its scepticism about the drugs' efficacy, in April the government forced drug companies to slash prices. GlaxoSmithKline has given a local generic-drug maker, Aspen, a licence to make and sell three AIDS drugs in the country. Neighbouring Botswana, which has the highest rate of HIV infection, says it will give free AIDS drugs to all who need them. Will any of this persuade Mr Mbeki to change his views? He told parliament last week that he sees no reason to do so.

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The function of dreaming

Dream on

Nov 1st 2001
From The Economist print edition

Are dreams related to learning and memory?

IN 1865 Friedrich August von Kekulé, a German chemist, was puzzling over the structure of a compound that contained six carbon and six hydrogen atoms. It seemed impossible to fit these together in a way that respected the rules of chemical bonding. Legend has it that the answer came to him in a dream: as he sat dozing in front of the fire, he had a vision of two entwined serpents biting each other's tails. He awoke to the realisation that the molecule must be shaped like a ring. By solving the structure of benzene, a hexagon with alternating single and double bonds, Kekulé won a place in the annals of two disciplines: chemistry and dream research.

Such anecdotes are often cited by psychologists to support the theory that it is while dreaming that the brain consolidates information it has absorbed during waking hours. But in this week's *Science*, Jerome Siegel, a neuroscientist at the University of California, Los Angeles, rebuts this claim. Dr Siegel says that the evidence does not yet show that dreaming is needed for the consolidation of memories. In particular, he attacks the idea that “rapid-eye movement” (REM) sleep, when dreams usually occur, is necessary for learning.

For a start, says Dr Siegel, dream research is a methodological nightmare. Take the hypothesis that periods of intensive learning are correlated with longer periods of REM sleep. One way to test this idea is to measure levels of REM sleep in laboratory animals which have been through novel “learning situations”, and compare them with controls which have not. Yet these learning situations typically force animals to work out how to avoid electric shocks, or to perform some clever trick to get a bit of food. The stress of these experiences, Dr Siegel argues, could produce increases in REM sleep: the learning itself may have nothing to do with it.

Testing the reverse hypothesis—that preventing REM sleep blocks memory formation—poses similar problems. Some researchers have deprived rats of REM sleep by placing them on a small platform in a tub of water. In rats, as in humans, REM sleep relaxes the muscles. When the rat on the platform goes into REM sleep and relaxes, it falls into the water. Rats who get doused in this fashion show worse memory retrieval than rats who sleep undisturbed on a larger platform. The lack of REM sleep may be to blame, but another study suggests that the discomfort of being confined to a small platform, fatigue and the shock of getting wet have more to do with it, says Dr Siegel. When a team of researchers came up with a less stressful way of blocking REM sleep in rats, by gently rocking the animals awake when they drifted off, the REM-deprived rats did no worse than usual on the memory tasks.

Dream researchers do have one powerful methodological advantage over researchers in many other scientific disciplines: in this field, humans are actually easier to experiment on than laboratory animals. Unfortunately, studies of learning in people deprived of REM sleep have produced decidedly mixed results. Some striking evidence has emerged, however. Dr Siegel points to the case of a patient who had been hit by flying shrapnel and suffered a brain lesion that prevented him from entering REM sleep. Neurologists build entire careers out of studying the consequences of such accidents, but in this case, the pickings were slim. After his injury, the patient completed law school, became a practising lawyer and even ran the logic-puzzle section of a local newspaper. A decade of close observation has found no memory problems at all.

Still more telling, says Dr Siegel, is the evidence from studies of antidepressants, such as monoamine oxidase (MAO) inhibitors and benzodiazepines. MAO inhibitors, which have been on the market for decades, completely inhibit REM sleep in the doses taken by depressives. Benzodiazepines have no effect on REM sleep. Yet patients who take MAO inhibitors do not seem to suffer from memory trouble, while those who take benzodiazepines can do. Some studies suggest that MAO inhibitors might even enhance

memory function. Alas, no dozing dream researcher has managed to repeat Kekulé's feat in his own discipline, and awoken with some insight into why this might be.

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Cultural critics

Like phosphor

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IN THIS collection of essays from the last two decades, Susan Sontag dwells on literary neglect. Writers such as Machado de Assis, Glenway Westcott, Natsume Soseki and Alfred Döblin are retrieved from the shadows—of the English-speaking world, at least—and irradiated with careful readings and hyperbolic praise. Phrases like “world-class”, “20th-century master” and “literary greatness” sprinkle the pages. Ms Sontag is so preoccupied by questions of global significance that it is hard not to suppose she may be saying something about her own fear of neglect.

Where the Stress Falls
By Susan Sontag

Farrar, Straus and Giroux; 364 pages; $27. Jonathan Cape (January 2002); £16.99

Buy it at
Amazon.com
Amazon.co.uk

Ms Sontag first made her reputation in the 1960s. Brilliant, original and provocative, she identified camp as an aesthetic category and wrote about photography before the critical pack. She soon came to epitomise a creature now threatened with extinction: the public intellectual. In the essay “Thirty Years Later...”, she looks back on that era and remarks: “How one wishes that some of its boldness, its optimism, its disdain for commerce had survived.” Ms Sontag, as this collection confirms, sees her work, with its tell-tale seriousness and enthusiasm, as a kind of moral phosphor, shining in the spreading darkness of consumer capitalism.

It so happens that “Where The Stress Falls” is as luminous and wide-ranging a volume of criticism as one could wish for. The essays cover Japanese puppet theatre, church paintings, ballet, grottoes and Italian photography, and all are subjected to detailed, passionate and often infectious celebration. The more concrete the writing, the better: Ms Sontag's flights of fancy, for example her whimsical musings on eating and dancing, inspired by Frank O'Hara and Jasper Johns, leave an impression of self-indulgence.

The most memorable pieces here are also the most personal: meditations on being translated, on directing “Waiting for Godot” in war-torn Sarajevo—will it be a play for peace in Kabul next?—and on the void left by the premature death of Roland Barthes, a French critic and thinker. Barthes is her particular hero and exemplar. For him, she writes, “the point is not to teach us something in particular. The point is to make us bold, agile, subtle, intelligent, detached. And to give pleasure.” With forgivable immodesty, Ms Sontag could be describing herself, and her own remarkable achievement.

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About sponsorship

Wildlife documentaries

Blue ballet

Nov 1st 2001
From The Economist print edition

BBC

Why do nature films have more to do with ballet and opera than with science?

YOU see the sardines first, thousands of them huddling together, seeking safety in numbers as they try to escape their attackers. Huge striped marlin arc round them. Circling back, they take aim and spear the rotating ball of sardines. At the same time snub-nosed yellow-fin tuna bullet through, leaving shards of stranded fish far from the mother lode. And then, as the music reaches a crescendo, a shape comes welling up from the deep—a prince of darkness like von Rothbart in the ballet “Swan Lake”. In one gulp of its vast mouth, the monster scoops up all the little fish that are left.

This hoovering harvester is a Sei whale, a creature so rare it has never been filmed before. It appears in the final moment of one of the theatrical set pieces from “The Blue Planet”, an extravagant eight-part British-American co-production that has just finished being broadcast on the BBC. Over the next year it will be aired in more than 26 countries, including America where it goes out on Discovery Channel in February. The £7m ($10m) series aims to reveal “the complete natural history of our blue planet, from its familiar shores to the mysteries of its deepest seas”, says Alastair Fothergill, the series producer who is a former head of the BBC's natural history unit. It is to nature films what the Wild West was to America in the 1870s, the last frontier.

More than 70% of the earth's surface is covered by the sea, and yet less is known about the deep oceans than is known about the moon. “The Blue Planet” shows us life in the shallows, filming 5,000 Olive Ridley's turtles hitting the beach in a single night to lay their eggs. But it is for its ventures into the deep, where neither man nor sunlight has ever penetrated, that it will really be remembered. There, the film makers entered a twilight zone, where, for animal life, survival hinges on seeing while not being seen, and many creatures have become completely transparent. They discovered gulper eels, unusual jellies, hairy anglers and fang-toothed monsters with dentures so big they cannot close their mouths. Aggressive hunters, the females in particular are also highly predatory; finding a mate down there is even harder than finding a meal.

In trying to inform as well as entertain, “The Blue Planet” is old-fashioned in its goals, a throwback to the early days of nature films, such as those made by Alan Root and Hugo van Lawick in Africa. Over the past decade natural-history broadcasting has expanded so much that some channels show wildlife films round the clock. Not surprisingly, the films themselves have also changed. In a bid for viewers, especially younger viewers raised on fast-moving cartoons, programme makers have gone for ever more sophisticated computer graphics or for attention-grabbing presenters. “Walking with Dinosaurs” has to compete with testosterone television, where presenters such as Steve Irwin wrestle with crocodiles. The

only commercial way forward, Derek Bousé explains in “Wildlife Films” (University of Pennsylvania Press; 2000), is more and more sensation.

“The Blue Planet” tried to avoid this. Science, its makers say, was a priority. Yet their big budget enabled cameramen, with little or no help from the computer, to return over and over, if necessary, to one spot to get the perfect shot, whether of red-tipped tube worms 4,000 metres below the surface or a pod of killer whales picking off a grey whale calf and ripping out its tongue. Perhaps inevitably, sensation and drama won out. By limiting the presenter, Sir David Attenborough, to little more than a soothing, authoritative voice-over, science loses to the oceanic showcase.

Much of the sea seems a lonely wasteland to those who travel on its surface, but the lasting impression of “The Blue Planet” is of a grand operatic drama. Mr Fothergill is proud of the science it portrays. But even he admits—with some pride—that with its careful editing, its fine storytelling, powerful music and dramatic sequences, “The Blue Planet” succeeds because “it's not television, it's cinema.”

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European unity

But can it last?

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IN ITS relatively short life the European Union has reordered the balance of power in Europe and created new kinds of co-operation between states that may yet lead to a genuine European federation. Although these remarkable achievements have done little to dent its popular reputation as a producer of red-tape and jargon, David Calleo keeps his eye on what matters. It is the great virtue of his new book that by concentrating on the larger picture he is able to convey the unprecedented scale of what is really happening in Europe. He not only thinks and writes clearly. He has also two particular advantages in analysing the continent: first, he is a historian and, second, he is an American. He writes, as a result, with an unusual perspective and detachment.

Rethinking Europe's Future
By David P. Calleo

Princeton University Press; 424 pages; $24.95 and £17.95

Buy it at
Amazon.com
Amazon.co.uk

Early on, Mr Calleo suggests that the impatient reader might skip the historical sections and move on to current events. That would be a mistake, for much of the value of the books lies in Mr Calleo's skill in tracing the ideological and historical antecedents of current issues. He shows, for example, that even before 1914 Germany was arguing for a united Europe as a counterweight to non-European great powers in Asia and North America. This view, he further suggests, is now essentially accepted by France but still rejected by Britain, creating a “disjuncture of historical imagination and sympathy between the British and the French”, in his words, “that runs through post-war European politics and continues to bedevil the future of the whole European project”.

A European making an observation of this sort would find it hard not to take a position on one side or another, if only by implication. As an outsider, however, Mr Calleo describes the various opposing views with understanding and equal sympathy. Furthermore, he can raise awkward questions which verge on the politically incorrect in Brussels, where querying the ultimate success of the European project is simply not done. As Mr Calleo mildly observes, the development of the EU in the past half century has been “a prolonged departure” from Europe's normal “bellicose and self-destructive history”. So it is perfectly reasonable to ask if the new pattern is sustainable.

The standard view in Brussels is that Europe was able to bury its old conflicts thanks to the development of the EU. In Mr Calleo's opinion, it was the Soviet-American balance of power that temporarily froze Europe's old rivalries, and the end of the cold war, to his mind, now raises the possibility of renewed turmoil. Because the Brussels elites are convinced that it is the EU above all that has created stability in Europe, it has become convinced that the expansion of the EU is the answer to this new threat of instability. Mr Calleo is again more sceptical. He thinks it unreasonable to expect that the structures of a union that suited convergent western states can be successfully and indefinitely extended to the East. “The EU,” he writes, “will not be doing the rest of Europe any good by destroying its own cohesion.”

The appeal of this view is that it challenges equally the conventional wisdom in Washington and the rather different one in Brussels. Many Americans, perhaps unaware of the full extent of shared government that is already involved in the existing core of the EU, assume that the Union should be expanded for strategic reasons, particularly when it comes to Turkey. Many Eurocrats, by contrast, while more aware of the likely costs and risks of expansion, have an almost religious faith in the ability of the European spirit to overcome difficulties and conflicts. “Rethinking Europe's Future” could be profitably read by both groups.

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Italian lives

Books and bombs

Nov 1st 2001
From The Economist print edition

Senior Service: A Story of Riches, Revolution and Violent Death
By Carlo Feltrinelli

Granta; 468 pages; £20

Buy it at Amazon.co.uk

IN MARCH 1972, a farmer's dog came across a shattered corpse beneath an electricity pylon not far from Milan. The pylon was lightly damaged by dynamite. In the dead man's pockets were a packet of Senior Service cigarettes and an identity card in the name of Vincenzo Maggioni. Neither the police nor the press was fooled for long. Soon front pages were cleared for the news that Giangiacomo Feltrinelli, Italy's best-known publisher, had blown himself up in a bungled act of sabotage.

He was shrewd, romantic, charismatic and very rich. He came from one of Milan's business dynasties and he published some of the most famous novels of the 20th century, among them “Doctor Zhivago” and “The Leopard”. A Communist in his youth, he drifted to the far left and the clandestine terror that racked Italy in the 1970s.

His son, Carlo, who now runs the group, has written a fascinating memoir of this complicated, reckless man. It appeared in Italy in 1999, and is now out in English. Though no stylist—is the translation at fault?—Mr Feltrinelli keeps several themes skilfully in play.

One is the story of the engineering and banking dynasty into which Giangiacomo was born in 1926. Dull they were not. When he was eight, his father, a critic of Mussolini, died mysteriously, a blackmail victim of the fascist currency police. His mother loved fast cars and was seldom without a gun. On an Alpine shoot, a deranged, perhaps besotted, hunter blinded her in one eye.

Their son went into publishing, and made one hit after another. “Senior Service” tells in detail how in 1957 he extracted an uncensored text of “Doctor Zhivago” from the Soviet Union. It also carefully recounts his slide into terrorism, with no hint at justification, against a backdrop of leftist romance with third-world guerrillas and fears that Italy, like Greece, might fall to a right-wing coup d'état. In documenting the follies, successes and squandered dreams of his father's life, Mr Feltrinelli makes ample use of family letters and company records. But what come through most strongly are his own non-judgmental memories as a puzzled but affectionate son.

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English lives

Blame the governess

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Not enough prep

OF THE six Mitford girls, five were newsworthy, two of them, Unity and Diana, notoriously so as being friends of Hitler. Nancy, the eldest, became a successful writer best known for her masterly comic novels, mainly based on her family; Jessica, or Decca, also found rich material in her family for a bestselling memoir "Hons and Rebels". She settled in America, was a Communist in the 1940s, a civil-rights campaigner in the 1960s, and with her book "The American Way of Death" the scourge of the funeral-parlour business. The youngest, Debo, is the Duchess of Devonshire. Their one brother, Tom, was killed in the second world war. Whenever their mother, Lady Redesdale, spotted a headline beginning "Peer's daughter", she would dread reading on.

How was it that the little upper-class girls brought up in the Cotswolds with dogs and ponies and educated by a string of governesses moved into the limelight of the political extremes of the 1930s? Why did several become accomplished writers? Their upbringing was a conventional one of landed gentry with insufficient means. At 17, each girl would don a ball gown, be presented at court, and "come out". The expectation was that at one of the season's many social occasions, all chaperoned, she would meet a suitable young man and carry on the old order. But wilder natures were at work. Decca, at a young age, had instructed her bank, Drummonds, to set up a Running Away fund, which it duly did. And she did run away—to the Spanish civil war with a rebellious young cousin whom she had met only once.

Unity in the 1930s became a sort of Hitler groupie, trembling with excitement when she was near him, which, living in Germany, she made sure she often was. When war was declared, she shot herself in the head, but survived, and lived for several years with a degree of brain damage. Diana, a beauty, married at 18, but left her husband three years later for the leader of the British Union of Fascists, Sir Oswald Mosley. Her friendship with Hitler and her fascist sympathies ensured that she spent most of the war in prison.

The received view—of bright but misguided young "gels" getting into scrapes—is not quite accurate. Witty, passionate, intelligent but ill-educated, they broke into the world from their restricted childhood like small flash bombs. They held to their views with fervour and tenacity but, uncompromising as they were, a family bond remained, cemented by humour—though Decca could not bring herself to speak to Diana.

It is the family rather than the political side of the Mitfords that interests Mary Lovell. She understands her territory and has had some family help, and she has produced a kind book (some might say too kind). It distinguishes the members of a large family clearly and describes their travails as well as their privileges. Unfortunately, the legendary Mitford wit does not turn well into the written word here. One is left wondering whether the governesses did not have a lot to answer for. Those clever young minds were begging for more education and wider horizons.

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Intellectual biography

No laughing matter

Nov 1st 2001
From The Economist print edition

Iris Murdoch: A Life
By Peter J. Conradi

Norton; 706 pages; $35.
HarperCollins; £24.99

Buy it at
Amazon.com
Amazon.co.uk

ANY biography of Iris Murdoch is likely to be a weighty affair. She was a many-sided personality as well as a prolific novelist, and the philosophical commentary which attends both—for she was also a moral philosopher—makes it a daunting project. Besides which, Peter Conradi is much in awe of his subject.

He is not alone. He quotes many testimonies to her extraordinary effect on people, and to the saintly status she achieved. Her husband John Bayley, in his memoir of her, remarks on her selflessness: “nobody less narcissistic than Iris can well be imagined”. The difficulty, however, is that although selflessness may constitute an ultimate good (Murdoch had an almost Platonist conviction in the fixity of moral values and strove to live the philosophy she admired) it doesn't by itself offer much by way of story or argument.

The best parts of the biography are where she has not yet dissolved, so to speak, into one of her own mage-like characters. In “A Memoir: People and Places”, another Oxford philosopher, Mary Warnock, remembers her not as a saint but as “a figure of enormous glamour and romance”. In post-war Oxford she was an exotic: both men and women (notably the fellows of her college, St Anne's) found her attractive; she had been in love with a Communist, Frank Thompson, killed in the war; she had worked in a UN refugee camp; and she had actually met Jean-Paul Sartre. Oxford philosophy at that time was extremely dry, characterised by Murdoch in “Sartre: Romantic Rationalist” (1953) as concerned with a world “in which people play cricket, cook cakes, make simple decisions, remember their childhood and go to the circus, not the world in which they commit sins, fall in love, say prayers or join the Communist Party.”

Hers was emphatically this latter world, filled with Jewish refugees, Communists, mystics, power-freaks (notably Elias Canetti); in short, with the monsters and idealists that people her fiction. She threw herself at their feet and into their arms, promiscuous and self-examining, in effect making herself the testbed for the moral quests of her novels.

Mr Conradi labours at her quasi-religious thoughts and the philosophies that influenced her, but his allusive, referential style too often assumes his readers to be in the know. Sartre gets fuller treatment; and yet the few lucid pages on him and Murdoch in Ms Warnock's memoir are intellectually exhilarating in a way that Mr Conradi misses. There is at times in this biography a feeling of crowdedness, of burden. He follows Murdoch's journey from complexity to simplicity with sympathy and understanding; but by the same token he has pondered to the point where everything is significant—almost in the spirit of Murdoch herself, who could make a diary note about her husband singing in the kitchen, and then add with a moralist's emphasis, “he is a *good* man”. It was said that he calmed her down and cheered her up: a lighter, clearer touch in Mr Conradi would have cheered this book up.

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About sponsorship

Art illustrators

Painting for numbers

Nov 1st 2001
From The Economist print edition

HIS critics hate the relentless sunniness, while his admirers praise his technique. Dave Hickey, a learned champion from the University of Nevada, sees a subversive edge to his work, a latent critique behind the “aw-shucks” Americana, which burst out in his famous image of a black girl being escorted to school by US marshals. Steven Spielberg has said that without him, he would never have been able to create his cinematic vision.

Norman Rockwell: A Life
By Laura Claridge

Random House; 576 pages; $35

Buy it at Amazon.com

As a man, at least, Norman Rockwell was complex. He was depressive, from time to time he seduced the mothers of the neighbourhood boys he painted and he fretted continually that his illustrations were not treated as art. When a critic wrote that “in America Rockwell is more famous than Raphael”, he did not appreciate the comparison and was hurt not to be included in the Museum of Modern Art's show of American artists in 1929. It is likely, then, that he would have been thrilled by the three-year touring Rockwell show, which reached the Guggenheim Museum in New York this month, and gratified that his work was, once again, being used to promote American war bonds. There is more to Rockwell than meets the eye, but whether there's enough to carry a nearly 600-page tome is debatable.

Laura Claridge spins out Rockwell's life like one of the Dickensian yarns he so loved as a boy. We learn not just about his Yankee parents but about his aunts and uncles, his in-laws, even what his grandparents did in the Civil War. He had a difficult, though hardly abject, childhood as his parents hovered on the fringes of middle-class respectability in New York. He worked hard at art school, refusing party invitations and turning his talent for illustration into a bread-winning occupation by the age of 18. His is less a rags-to-riches story than an account of a slightly insecure man with a puritan work ethic who locked himself in his studio to chase the American Dream, quite literally. He earned a fortune, but at a cost. He could be manipulative and remote to those who loved him, wanting, on the one hand, to be cared for and, on the other, to be left undisturbed until mealtimes.

Whether Rockwell had a social conscience, though, is debatable. Although he proposed painting a black person for the cover of the *Saturday Evening Post* as early as the 1920s, the editor, George Lorimer, didn't think middle-American readers were ready to be confronted with race. Rockwell's first cover images of blacks were not painted until the 1960s, and Ms Claridge excuses his acquiescence on the grounds that Rockwell lacked the stomach to be a starving artist. But if he truly disagreed with *Post* politics and yearned to be taken seriously as an artist, why didn't he paint the pictures he wanted to in his free time, instead of spending every waking moment, even at his summer cottage, illustrating commissions? Mr Spielberg might have been inspired by him but he could never make a movie of Rockwell's life. There is just no easy moral to the story.

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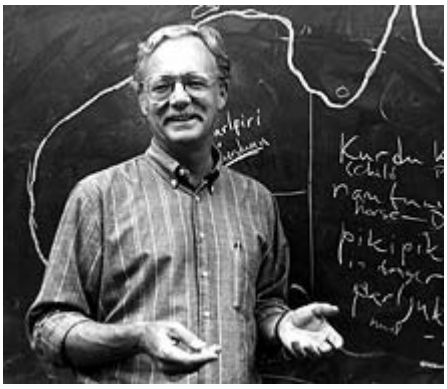
About sponsorship

Kenneth Hale

Nov 1st 2001
From The Economist print edition

Kenneth Locke Hale, a master of languages, died on October 8th, aged 67



SOMETIMES Kenneth Hale was asked how long it would take him to learn a new language. He thought ten or 15 minutes would be enough to pick up the essentials if he were listening to a native speaker. After that he could probably converse; obviously not fluently, but enough to make himself understood. To those whose education, however admirable in other respects, had provided only rudimentary language skills, Mr Hale seemed a marvel.

And so he was. He had a gift. But he was also an academic, a teacher of linguistics at the Massachusetts Institute of Technology (MIT). He was aware that many otherwise clever people are dunces at learning a second language. He sought to find laws and structures that could be applied to all languages. As well as studying the common languages, French, Spanish and so on, the search took him into many linguistic byways, to the languages of native Americans and Australian aborigines and the Celtic fringes of Europe. As many of these languages had no written grammar or vocabulary, and indeed were spoken by few people, Mr Hale picked them up orally. His tip for anyone who pressed him for advice on learning a language was to talk to a native speaker. Start with parts of the body, he said, then common objects. After learning the nouns, you can start to make sentences and get attuned to the sounds. Still, there was much more to language than that. Noam Chomsky, like Mr Hale a teacher of linguistics at MIT, wrote:

> Language is really weird. Although speaking a language is for normal humans an effortless task, there is nothing else in the natural world that even approaches its complexity... Although children receive no instruction in learning their native language, they are able to fully master it in less than five years. This is all the more confusing as language is much more computationally complex than, say, simple arithmetic, which often takes years to master... It is often hypothesised that language is an innate human faculty, with its own specialised system in our brain.

Some students of linguistics believe that such a system, if it exists, is normally shut down in the brain at the age of 12. But for Mr Hale it was around this age that his interest in language was just starting.

In cowboy boots

Kenneth Hale's childhood was on a ranch in Arizona and he started his education in a one-roomed school in the desert. Many years later, lecturing at MIT, he still felt most comfortable in cowboy boots. On his belt was a buckle he had won at a rodeo by riding bulls, and he had the slightly bowed legs of a horseman. His students were impressed that he could light a match with his thumbnail.

Mr Hale had discovered his talent for language when playing with Indian friends who taught him Hopi and Navajo. Learning languages became an obsession. Wherever he travelled he picked up a new tongue. In Spain he learnt Basque; in Ireland he spoke Gaelic so convincingly that an immigration officer asked if he knew English. He apologised to the Dutch for taking a whole week to master their somewhat complex language. He picked up the rudiments of Japanese after watching a Japanese film with subtitles. He sought to rescue languages that were dying out. One Indian language at its last gasp was spoken by the Wopanaak, the tribe that greeted the Pilgrim Fathers in 1620. It is now spoken again by several thousand people around Cape Cod. A Wopanaak who studied under Mr Hale is preparing a dictionary of her language. “Ken was a voice for the voiceless,” said Noam Chomsky.

Mr Hale could converse in about 50 languages, perhaps a world record, although he was too modest to claim one. But some tongues, such as Australia's Lardil, died with its last seven speakers. Mr Hale was the last person on earth to speak some languages. Hundreds are disappearing, he said. “They became extinct, and I had no one to speak them with.”

How much did Kenneth Hale contribute to an understanding of the apparently innate human capacity for speech? He made a number of what he called “neat” discoveries about the structure of language, and had an instinctive sense of what all languages had in common. After his retirement from MIT in 1999, he said he would “really get down to work”, an ambition he was unable to achieve. And linguistics itself is a fairly recent discipline. He is likely to be remembered by “The Green Book of Language Revitalisation”, which he helped to edit and which was published shortly before he died. It was warmly welcomed, especially by those who may be a touch aggrieved by the spread of English, which is blamed for brutally sweeping other languages aside.

A scholarly argument surfaces from time to time about the desirability of keeping alive languages that, in medical parlance, are brain dead. Occasionally the argument turns nationalistic. For example, is what Mr Hale called the “revitalisation” of Welsh merely a nuisance in Britain where, obviously, English is the working language? Kenneth Hale had an indignant answer to that question. “When you lose a language,” he told a reporter, “you lose a culture, intellectual wealth, a work of art. It's like dropping a bomb on a museum, the Louvre.”

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Overview

Nov 1st 2001
From The Economist print edition

America's GDP shrank in the third quarter at an annual rate of 0.4%, the largest fall since the first quarter of 1991, which was the trough of the 1990-91 recession. The decline comes after weak growth of only 0.3% in the previous quarter. Analysts predict an even bigger decline in the fourth quarter, meeting the classic definition of a recession. Consumer spending, which accounts for two-thirds of America's GDP, rose by 1.2% at an annual rate in the third quarter, its slowest growth since 1993. The Dow has fallen by 2.9% over the past week; but the dollar is back to its pre-September 11th highs.

America's Conference Board index of consumer confidence fell from a revised 97.0 in September to 85.5 in October, its lowest in seven years and far below the consensus forecast of 95.6. Survey respondents' perceptions of the labour market also worsened, with 21% reporting that jobs are “hard to get”. A different reading came from the University of Michigan's consumer-sentiment index, which rose to 82.7 in October from 81.8 last month.

Japan suffered yet another week of bad news. Its unemployment rate rose to 5.3% in September, the highest since the government began keeping records in the 1950s. A large part of this increase stems from lay-offs among Japan's large electronics companies. Industrial output plunged by 12.7% in the year to September. The Bank of Japan said that the country's recession was likely to last until March 2003, and estimated that consumer prices would fall by 1% in each of the next two years. In the year to September, consumer prices fell by 0.8%.

In the **euro-zone**, the current-account deficit narrowed to $37.4 billion in the 12 months to August, from $44.7 billion in the year to July. In France, the INSEE monthly survey of 4,500 firms showed business confidence remaining flat in October, at its lowest level since 1996. Unemployment in France rose to 9.1% of the labour force in September; Spain's unemployment rate fell to 13.0%.

Britain's economy remains one of the strongest among the rich countries. GDP grew at an annual rate of 2.2% in the third quarter.

Canada's GDP remained virtually flat in August, for the fourth straight month. The Canadian dollar fell to an all-time low of $1.5871 against the American dollar, amid worries about the effects of its giant neighbour's economic slowdown.

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Output, demand and jobs

Nov 1st 2001
From The Economist print edition

% change at annual rate

	GDP		The Economist poll GDP forecasts		Industrial production	Retail sales (volume)	Unemployment % rate	
	1 qtr	1 year	2001	2002	latest	latest	latest	year ago
Australia	+ 3.6	+ 1.4 Q2	+ 2.3	+ 3.5	– 0.4 Q2	+ 5.8 Q3	6.7 Sep	6.0
Austria	+ 0.2	+ 1.2 Q2	+ 1.6	+ 1.6	+ 1.6 Aug	– 1.1 Jul	3.9 Sep	3.6
Belgium	– 2.4	+ 1.7 Q2	+ 1.6	+ 1.6	– 2.6 Aug*	+ 2.8 Aug	11.6 Aug*	11.9
Britain	+ 2.4	+ 2.2 Q3	+ 2.0	+ 1.9	– 2.3 Aug	+ 5.9 Sep	5.1 Aug†	5.3
Canada	+ 0.4	+ 2.1 Q2	+ 1.6	+ 1.8	– 3.2 Aug**	+ 3.5 Jun	7.2 Sep	6.9
Denmark	+ 2.4	+ 1.3 Q2	+ 1.2	+ 1.8	+ 0.8 Aug	– 0.5 Aug	5.1 Aug	5.4
France	+ 1.1	+ 2.3 Q2	+ 1.9	+ 1.6	+ 1.5 Aug	+ 0.6 Aug	9.1 Sep	9.4
Germany	– 0.1	+ 0.6 Q2	+ 0.8	+ 1.2	– 1.0 Aug	+ 0.4 Aug	9.4 Sep	9.4
Italy	+ 0.1	+ 2.1 Q2	+ 1.8	+ 1.5	– 1.4 Aug	+ 0.2 Aug	9.4 Jul	10.5
Japan	– 3.2	– 0.7 Q2	– 0.5	– 0.4	–12.7 Sep	– 2.1 Jun	5.3 Sep	4.7
Netherlands	+ 1.5	+ 1.4 Q2	+ 1.4	+ 1.8	– 2.2 Aug	+ 2.7 Jun	2.0 Sep§	2.5
Spain	+ 1.9	+ 2.9 Q2	+ 2.7	+ 2.2	+ 2.8 Aug	na	13.0 Sep	13.8
Sweden	+ 1.3	+ 1.4 Q2	+ 1.8	+ 2.0	– 1.3 Aug	+ 3.0 Aug	4.0 Sep*	4.1
Switzerland	+ 1.7	+ 2.0 Q2	+ 1.6	+ 1.6	+ 4.2 Q2*	+ 3.6 Aug	1.7 Sep*	1.7
United States	– 0.4	+ 0.8 Q3	+ 1.0	+ 1.0	– 5.8 Sep	+ 4.3 Aug	4.9 Sep	3.9
Euro area	+ 0.2	+ 1.7 Q2	+ 1.6	+ 1.5	+ 0.4 Aug	+ 1.3 Jul	8.3 Aug	8.7
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Finland	– 6.7	+ 0.4 Q2	na	na	– 1.9 Aug	+ 3.9 Jul	8.7 Sep*	9.1
Greece	+ 2.8	+ 4.9 Q2	na	na	+ 1.0 Jun*	+ 8.0 Jun	na	na
Iceland	na	+ 3.62000	na	na	+ 2.5 2000	na	1.2 Jul	1.3
Ireland	na	+13.2 Q1	na	na	+ 5.6 Aug*	+ 2.1 Aug	3.7 Sep	3.8
Luxembourg	na	+ 8.52000	na	na	+ 2.7 Jul*	+ 8.2 Jul	2.4 Aug	2.7
New Zealand	+ 7.4	+ 2.8 Q2	na	na	+ 3.5 Q2*	+ 7.2 Q2	5.2 Q2	6.1
Norway	+ 0.5	+ 1.4 Q2	na	na	+ 0.9 Aug*	nil Sep	3.6 Q2	3.3
Portugal	+ 1.6	+ 2.5 Q2	na	na	– 1.2 Aug*	+ 5.2 Jul	3.9 Q2	3.8

*Not seasonally adjusted. † Jun-Aug; claimant count rate 3.1% inSep. §Jul-Sep. **New series.

Text refers only to the first 16 countries listed

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Prices and wages

Nov 1st 2001
From The Economist print edition

% change at annual rate

	Consumer prices* latest		Consumer prices* year ago	The Economist poll consumer prices forecast 2001	2002	Producer prices* latest		Producer prices* year ago	Wages/earnings latest		Wages/earnings year ago
Australia	+ 2.5	Q3	+ 6.1	+ 4.0	+ 2.5	+ 2.4	Q3	+ 7.2	+ 3.7	Q2	+ 3.9
Austria	+ 2.6	Sep	+ 3.0	+ 2.5	+ 1.6	+ 0.1	Sep	+ 6.2	+ 2.9	Sep	+ 1.9
Belgium	+ 2.4	Oct	+ 3.0	+ 2.6	+ 1.7	+ 0.7	Aug	+ 9.2	+ 3.7	Q3	+ 1.4
Britain	+ 1.7	Sep	+ 3.3	+ 2.0	+ 2.1	− 0.2	Sep	+ 2.5	+ 4.5	Aug	+ 4.0
Canada	+ 2.6	Sep	+ 2.7	+ 2.8	+ 2.0	+ 0.5	Sep	+ 4.0	+ 1.4	Aug	+ 2.6
Denmark	+ 2.3	Sep	+ 2.7	+ 2.4	+ 2.0	+ 0.7	Sep	+ 6.9	+ 4.7	Q2	+ 3.3
France	+ 1.6	Sep	+ 2.2	+ 1.9	+ 1.5	− 0.2	Sep	+ 6.6	+ 4.2	Q2	+ 5.4
Germany	+ 2.0	Oct	+ 2.4	+ 2.4	+ 1.4	− 0.2	Sep	+ 7.2	+ 1.9	Aug*	+ 2.1
Italy	+ 2.5	Oct	+ 2.6	+ 2.7	+ 1.8	+ 0.4	Sep	+ 6.7	+ 2.4	Sep*	+ 1.7
Japan	− 0.8	Sep	− 0.8	− 0.6	− 0.6	− 0.2	Sep	+ 0.4	− 0.4	Sep*	+ 1.5
Netherlands	+ 4.7	Sep	+ 2.9	+ 4.7	+ 2.2	+ 0.5	Sep	+ 8.8	+ 4.3	Aug	+ 3.3
Spain	+ 3.4	Sep	+ 3.7	+ 3.7	+ 2.4	+ 0.6	Sep	+ 5.5	+ 2.9	Q2†	na
Sweden	+ 3.2	Sep	+ 1.3	+ 2.3	+ 1.8	+ 1.1	Sep	+ 4.0	+ 3.2	Aug*	+ 3.3
Switzerland	+ 0.6	Oct	+ 1.3	+ 1.3	+ 1.1	− 0.9	Sep	+ 2.8	+ 1.3	2000	+ 0.3
United States	+ 2.6	Sep	+ 3.5	+ 3.1	+ 2.1	+ 1.6	Sep	+ 3.5	+ 4.3	Sep	+ 3.7
Euro area	+ 2.5	Sep	+ 2.8	+ 2.6	+ 1.7	+ 1.7	Aug	+ 5.6	+ 3.0	Q2	+ 2.3
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 2.2	Sep	+ 4.2	na	na	− 2.1	Sep	+ 9.6	+ 4.8	Q2*	+ 4.6
Greece	+ 3.6	Sep	+ 3.1	na	na	+ 3.1	Aug	+ 7.9	na		na
Iceland	+ 8.0	Oct	+ 4.2	na	na	+ 6.8	Oct	+ 3.6	+ 9.1	Sep	+ 7.8
Ireland	+ 4.6	Sep	+ 6.2	na	na	+ 2.6	Sep	+ 6.4	+ 8.1	Q1*	+ 6.1
Luxembourg	+ 2.4	Sep	+ 3.4	na	na	− 0.4	Aug	+ 6.9	+ 5.2	Jul*	+ 8.1
New Zealand	+ 2.4	Q3	+ 3.0	na	na	+ 8.1	Q2	+ 5.9	+ 1.8	Q2	+ 1.7
Norway	+ 2.4	Sep	+ 3.5	na	na	−11.0	Sep	+ 7.4	+ 4.4	Q2*	+ 3.9
Portugal	+ 4.0	Sep	+ 3.4	na	na	− 1.3	Sep	+13.9	+ 2.4	Apr*	na

*Not seasonally adjusted. †New series.

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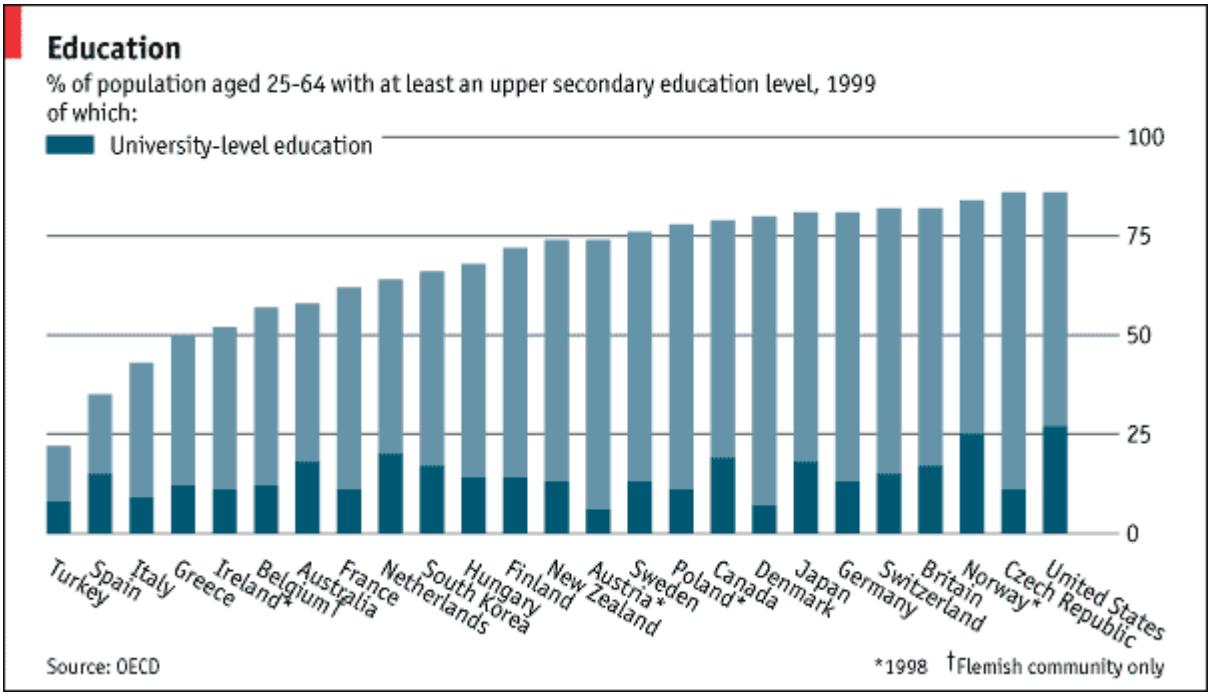
Education

Nov 1st 2001
From The Economist print edition



Levels of educational attainment vary widely even within the OECD group of rich countries. These differences matter, because educational qualifications measure human capital, which has become an increasingly significant source of economic growth. The share of the working-age populations in Japan and America with post-secondary schooling is more than 20 percentage points higher than in the European Union.

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Money and interest rates

Nov 1st 2001
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (Oct 31st 2001)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+19.1	+ 9.9	Sep	4.27	6.42	3.91	5.21	6.17	4.57
Britain	+ 6.3	+ 8.0	Sep	4.13	6.07	4.14	4.47	5.17	5.79
Canada	+10.4	+ 4.5	Sep	2.37	5.62	2.92	4.90	5.80	7.07
Denmark	+ 3.7	+ 2.9	Sep	3.95	5.55	3.68	4.59	5.44	6.97
Japan	+11.8	+ 3.7	Sep	0.01	0.45	0.06	1.31	1.83	1.40
Sweden	+ 5.9	+ 3.1	Sep	3.66	3.96	3.83	4.86	5.09	4.90
Switzerland	+ 1.7	+ 3.2	Sep	2.09	3.50	2.12	2.87	3.83	4.17
United States	+ 7.5	+11.9	Sep	2.14	6.50	2.41	4.27	5.73	6.62
Euro area†	+ 5.2	+ 7.6	Sep	3.52	5.18	3.12	4.34	5.18	5.20

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. Benchmarks: US 30-year 4.87%, Japan No.234 1.32%. Central bank rates: US fed funds 2.50%, ECB refinancing 3.75%, BOJ overnight call 0.003%, BOE repo 4.50%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, OM Fixed Income Exchange, Warburg Dillon Read, DRI-WEFA, Westpac, Thomson Financial Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Nov 1st 2001
From The Economist print edition

1995=100

	Oct 23rd	Oct 30th*	% change on one month	% change on one year
Dollar index				
All items	62.3	63.0	– 1.1	–11.2
Food	65.1	66.0	+ 0.8	– 5.4
Industrials				
All	58.5	58.9	– 3.8	–18.7
Nfa†	55.1	56.0	– 4.6	–15.0
Metals	61.4	61.4	– 3.1	–21.4
Sterling index				
All items	69.2	68.2	– 0.4	–11.5
Euro index				
All items	92.2	91.2	– 0.3	–17.2
Yen index				
All items	81.5	81.5	– 0.4	– 1.1
Gold				
$ per oz	275.80	280.15	– 3.6	+ 5.9
West Texas Intermediate				
$ per barrel	21.62	21.85	– 2.0	–33.7

* Provisional. † Non-food agriculturals.

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Stockmarkets

Nov 1st 2001
From The Economist print edition

Market indices

	Oct 31st	2001 high	2001 low	% change on one week	% change on record high	% change on Dec 31st 2000 in local currency	% change on Dec 31st 2000 in $ terms
Australia (All Ordinaries)	3,185.3	3,425.2	2,867.4	+ 0.1	- 7.0	+ 1.0	- 8.3
Austria (ATX)	1,033.8	1,245.8	1,014.3	- 0.7	-40.5	- 3.7	- 7.6
Belgium (Bel 20)	2,605.3	3,030.4	2,322.6	- 1.4	-29.2	-13.9	-17.4
Britain (FTSE 100)	5,039.7	6,334.5	4,433.7	- 2.5	-27.3	-19.0	-21.2
Canada (Toronto Composite)	6,885.7	9,348.4	6,513.1	- 0.2	-39.5	-22.9	-27.1
Denmark (KBX)	217.8	294.3	197.8	- 2.6	-27.8	-17.7	-20.9
France (SBF 250)	2,779.7	3,820.2	2,335.3	- 2.8	-36.7	-26.3	-29.3
(CAC 40)	4,341.3	5,998.5	3,652.9	- 3.2	-37.3	-26.7	-29.7
Germany (Xetra DAX)	4,559.1	6,795.1	3,787.2	- 5.3	-43.5	-29.1	-32.0
Italy (BCI)	1,340.4	1,948.4	1,082.9	- 4.5	-38.6	-30.1	-32.9
Japan (Nikkei 225)	10,366.3	14,529.4	9,504.4	- 4.0	-73.4	-24.8	-29.8
(Topix)	1,059.4	1,441.0	863.4	- 3.7	-63.3	-17.5	-23.0
Netherlands (AEX)	460.3	642.3	396.2	- 1.6	-34.4	-27.8	-30.7
Spain (Madrid SE)	763.8	963.9	648.6	- 3.8	-33.4	-13.3	-16.8
Sweden (Affarsvarlden Gen)	203.7	293.1	177.5	- 2.6	-49.1	-26.7	-34.9
Switzerland (Swiss Market)	6,081.0	8,135.4	5,110.2	- 3.2	-27.7	-25.3	-25.9
United States (DJIA)	9,075.1	11,337.9	8,235.8	- 2.9	-22.6	-15.9	-15.9
(S&P 500)	1,059.0	1,373.7	965.8	- 2.4	-30.7	-19.8	-19.8
(Nasdaq Comp)	1,690.2	2,859.2	1,423.2	- 2.4	-66.5	-31.6	-31.6
Europe (FTSE Eurotop 300)*	1,176.5	1,545.5	998.9	- 2.6	-31.0	-23.3	-26.4
Euro area (FTSE Ebloc 100)*	1,017.3	1,404.1	843.6	- 3.5	-34.4	-26.9	-29.9
World (MSCI)†	943.2	1,249.2	856.6	- 2.4	-34.9	na	-22.8
World bond market (Salomon)‡	457.7	458.1	420.6	+ 1.6	- 0.5	na	+ 3.1

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms.
‡Schroder Salomon Smith Barney World Government Bond Index, total return, in dollar terms.

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Trade, exchange rates and budgets

Nov 1st 2001
From The Economist print edition

	Trade balance*, $bn latest 12 months	Current account $bn latest 12 mths	Current account The Economist poll % of GDP, forecast 2001	Current account The Economist poll % of GDP, forecast 2002	Exchange rate trade-weighted† Oct 31st	Exchange rate trade-weighted† year ago	Currency units per $ Oct 31st	Currency units per $ year ago	Currency units per £	Currency units per euro	Currency units per ¥100	Budget balance % of GDP 2001‡
Australia	+ 2.3 Sep	− 9.9 Q2	− 2.9	− 3.2	70.5	71.1	1.98	1.91	2.88	1.78	1.62	0.1
Austria	− 5.2 Jul	− 4.2 Aug	− 2.6	− 2.5	100.2	98.9	15.3	16.1	22.2	13.8	12.5	-0.6
Belgium	+ 11.7 Aug	+ 8.9 Jun	+ 4.1	+ 4.3	99.0	97.3	44.8	47.0	65.1	40.3	36.6	0.7
Britain	− 47.4 Aug	− 19.2 Q2	− 1.9	− 2.4	106.5	108.6	0.69	0.69	–	0.62	0.56	1.2
Canada	+ 46.2 Aug	+ 25.5 Q2	+ 2.6	+ 1.9	75.7	78.4	1.59	1.53	2.31	1.43	1.30	2.6
Denmark	+ 7.0 Aug	+ 6.0 Aug	+ 1.8	+ 1.7	102.6	99.4	8.27	8.68	12.0	7.45	6.75	2.9
France	+ 2.0 Aug	+ 20.3 Aug	+ 1.5	+ 1.5	101.6	99.8	7.28	7.65	10.6	6.56	5.95	-0.5
Germany	+ 64.1 Aug	− 18.8 Aug	− 1.0	− 0.9	98.6	96.2	2.17	2.28	3.16	1.96	1.77	-1.7
Italy	+ 3.0 Aug	− 1.5 Jul	− 0.3	− 0.2	72.5	71.2	2,150	2,258	3,126	1,936	1,756	-1.3
Japan	+ 81.0 Aug	+ 89.3 Aug	+ 2.0	+ 1.9	137.4	157.3	122	108	178	110	–	-6.3
Netherlands	+ 18.7 Aug	+ 13.7 Q2	+ 4.0	+ 4.1	98.0	96.0	2.45	2.57	3.56	2.20	2.00	1.3
Spain	− 38.3 Jul	− 16.6 Jul	− 2.7	− 2.7	74.2	73.0	185	194	269	166	151	nil
Sweden	+ 12.2 Sep	+ 6.1 Aug	+ 1.9	+ 2.1	73.0	80.9	10.64	9.86	15.5	9.58	8.69	3.6
Switzerland	+ 0.3 Sep	+ 27.0 Q2	+10.6	+10.5	112.3	105.9	1.63	1.78	2.38	1.47	1.33	na
United States	−448.0 Aug	−449.9 Q2	− 4.2	− 4.0	119.1	115.5	–	–	1.45	0.90	0.82	2.1
Euro area	+ 14.6 Aug	− 37.4 Aug	− 0.3	− 0.2	78.9	75.4	1.11	1.17	1.61	–	0.91	-0.6
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 13.5 Aug	+ 8.4 Aug	na	na	78.7	75.6	6.66	6.93	9.69	6.00	5.44	5.3
Greece	− 7.4 Jun	− 7.3 Jun	na	na	57.5	56.7	382	396	555	344	312	nil
Iceland	− 0.3 Sep	− 0.9 Q1	na	na	na	na	105	85.5	152	94.3	85.5	2.4
Ireland	+ 30.8 Aug	− 1.5 Q2	na	na	87.4	84.6	0.88	0.92	1.28	0.79	0.72	4.5
Luxembourg	− 3.1 Jul	+ 1.2 Q2	na	na	99.0	97.3	45.2	47.0	65.7	40.7	36.9	3.6
New Zealand	+ 0.4 Sep	− 1.9 Q2	na	na	78.7	73.1	2.39	2.52	3.48	2.15	1.95	1.0
Norway	+ 27.3 Sep	+ 26.0 Aug	na	na	96.4	94.0	8.91	9.21	13.0	8.02	7.28	15.3
Portugal	− 13.8 Jul	− 9.1 Aug	na	na	89.4	87.9	225	234	327	202	184	-1.2

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †1990=100, Bank of England. ‡OECD estimate.

Text refers only to the first 16 countries listed

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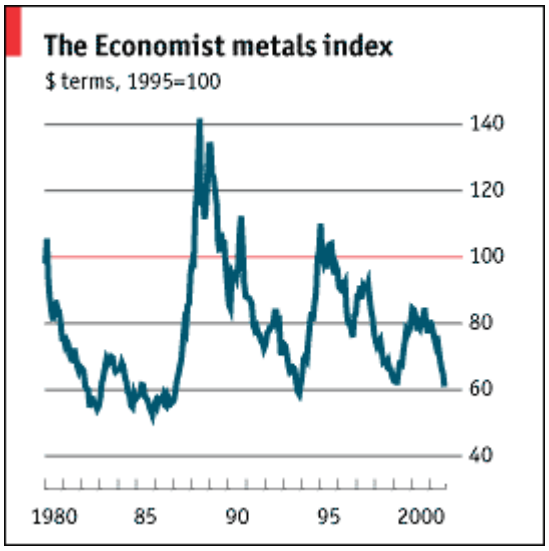
The Economist metals index

Nov 1st 2001
From The Economist print edition

Demand for base metals has weakened with the world economic slowdown. Our dollar-based metals index is at an eight-year low. Copper prices are now at their lowest since 1987. Since January, nickel prices have fallen by nearly 40%.



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Overview

Nov 1st 2001
From The Economist print edition

Standard & Poor's, a rating agency, downgraded **Argentina's** long-term sovereign debt to CC from CCC+, with a negative outlook, reflecting the country's increased default risk. Argentina's stockmarket plunged by 8.9% over the week. Interest-rate spreads over American Treasury bonds widened to more than 20 percentage points, a level last seen during the “tequila crisis” in 1995.

Mexico's central bank warned that the country's GDP would fall by more than 1% in the third quarter.

Current-account surpluses have been shrinking in East Asia's export-driven economies. In the year to September, **South Korea's** narrowed to $11.1 billion and **Thailand's** to $6.4 billion, while the **Philippines'** fell to $6.0 billion in the year to July.

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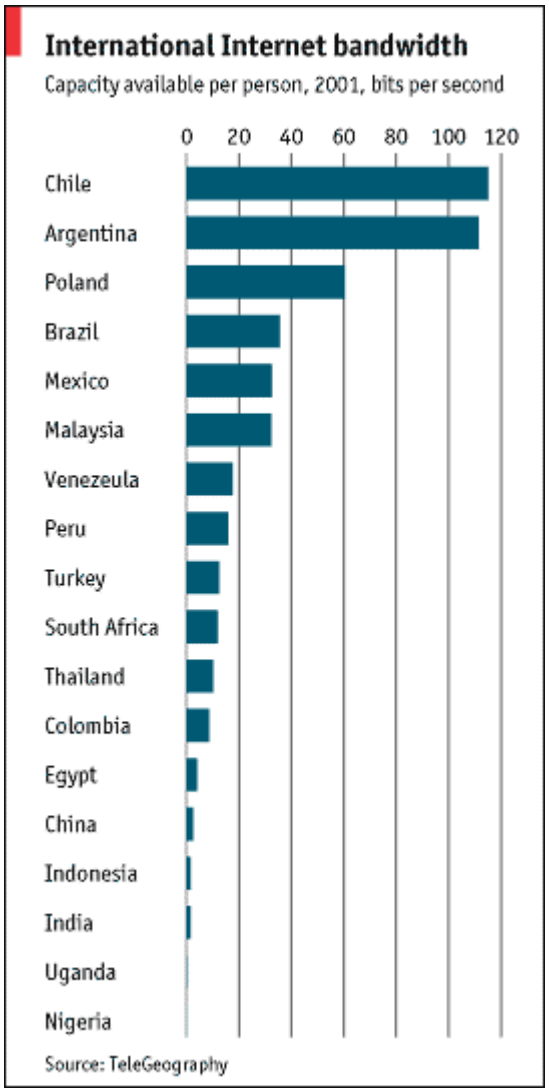
International Internet bandwidth

Nov 1st 2001
From The Economist print edition

The capacity of Internet links between Latin America and the rest of the world has quintupled over the past year, a faster rise than for any other region, according to TeleGeography. Its “Packet Geography 2002” report calculates international Internet bandwidth per person for 65 countries. The worst-connected region is Africa, with 13% of the world's population but only 0.15% of international Internet connections.



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Economy

Nov 1st 2001
From The Economist print edition

	% change on year earlier						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 7.0	Q3	+ 9.5	Sep	– 0.1	Sep	+18.6	Sep	+20.5	2000	187.5	Jul
Hong Kong	+ 0.5	Q2	– 0.1	Q2	– 1.2	Sep	–12.3	Sep	+ 8.2	Q2	113.4	Sep
India	+ 4.4	Q2	+ 1.8	Aug	+ 5.2	Aug	– 5.7	Aug	– 0.9	Q2	42.0	Sep
Indonesia	+ 3.5	Q2	+ 7.5	Q1	+12.5	Oct	+24.6	Sep	+ 6.3	Q1	27.8	Aug
Malaysia	+ 0.5	Q2	– 7.3	Aug	+ 1.4	Sep	+15.4	Sep	+ 7.5	Q2	26.9	Jul
Philippines	+ 3.3	Q2	+ 7.8	Aug	+ 6.1	Sep	+ 3.7	Aug	+ 6.0	Jul	12.3	Jul
Singapore	– 5.6	Q3	–22.3	Sep	+ 0.5	Sep	+ 4.5	Sep	+22.6	Q2	75.4	Sep
South Korea	+ 2.7	Q2	+ 5.1	Sep	+ 3.6	Oct	+11.1	Oct	+11.1	Sep	100.0	Sep
Taiwan	– 2.4	Q2	–14.1	Sep	– 0.5	Sep	+13.0	Sep	+14.1	Q2	115.2	Sep
Thailand	+ 1.9	Q2	– 1.8	Sep	+ 1.4	Oct	+ 2.6	Sep	+ 6.4	Sep	31.9	Sep
Argentina	– 0.5	Q2	– 7.1	Sep	– 1.1	Sep	+ 3.4	Aug	– 8.4	Q2	14.4	Aug
Brazil	+ 0.8	Q2	nil	Aug	+ 7.3	Sep	– 0.1	Sep	–26.3	Sep	40.1	Sep
Chile	+ 3.4	Q2	+ 0.1	Sep	+ 3.9	Sep	+ 1.6	Sep	– 1.6	Q2	14.7	Aug
Colombia	+ 1.6	Q2	– 3.2	Aug	+ 8.0	Sep	+ 0.9	Aug	– 0.7	Q2	9.5	Jul
Mexico	nil	Q2	– 5.4	Aug	+ 6.1	Sep	– 9.3	Sep	–17.5	Q2	42.8	Sep
Peru	+ 0.7	Aug	– 3.3	Aug	+ 0.7	Oct	– 0.2	Aug	– 1.4	Q2	8.4	Sep
Venezuela	+ 2.9	Q2	na		+12.3	Sep	+15.6	Q2‡	+11.1	Q2	10.6	Jul
Egypt	+ 6.5	2000†	+ 9.4	2000†	+ 2.2	Aug	– 8.8	Jul	nil	Q2	13.0	Jun
Israel	+ 1.4	Q2	–10.5	Aug	+ 2.5	Sep	– 7.6	Sep	– 1.1	Q1	24.2	Sep
South Africa	+ 2.5	Q2	+ 0.6	Aug	+ 4.4	Sep	+ 4.6	Sep	+ 0.4	Q2	6.0	Sep
Turkey	– 9.3	Q2	–10.1	Aug	+61.8	Sep	–19.3	Jul	– 3.1	Jul	18.8	Aug
Czech Republic	+ 3.9	Q2	+ 3.0	Aug	+ 4.7	Sep	– 3.3	Sep	– 2.7	Q2	13.5	Sep
Hungary	+ 4.0	Q2	+ 1.4	Aug	+ 8.0	Sep	– 2.3	Aug	– 1.4	Aug	12.0	Sep
Poland	+ 0.9	Q2	– 3.8	Sep	+ 4.3	Sep	– 9.6	Sep	– 6.0	Sep	27.3	Sep
Russia	+ 5.1	Q2	+ 3.8	Sep	+20.1	Sep	+57.7	Aug	+44.6	Q2	34.0	Sep
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Pakistan	+ 3.3	2001†	+10.2	Jun	+ 2.9	Sep	– 1.4	Aug	+ 0.3	2001†	1.3	Jun
Saudi Arabia	+ 4.5	2000§	na		– 0.3	Jul	+50.9	2000	+15.6	2000	17.0	Jul

*Excluding gold, except Singapore; IMF definition. †Year ending June. ‡New series. § Economist Intelligence Unit estimate.

Text refers only to the first 25 countries listed

Sources: National statistics offices, central banks and stock exchanges; Thomson Financial Datastream; Economist Intelligence Unit; Reuters; Warburg Dillon Read; J.P Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Garanti Bank; Deutsche Bank; *Russian Economic Trends*.

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Financial markets

Nov 1st 2001
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Oct 31st		Dec 31st 2000	
	Oct 31st	year ago	Oct 31st	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	12.0	na	1,762.4	– 1.7	–19.6	–19.6
Hong Kong	7.80	7.80	11.3	2.14	10,074.0	– 1.7	–33.3	–33.3
India	48.0	46.8	69.8	6.63	2,989.4	– 1.7	–24.7	–26.8
Indonesia	10,475	9,165	15,232	17.94	383.7	– 0.6	– 7.8	–14.9
Malaysia	3.80	3.80	5.53	3.30	600.1	– 2.6	–11.7	–11.7
Philippines	52.0	51.2	75.5	13.63	993.4	+ 1.4	–33.5	–36.0
Singapore	1.82	1.74	2.65	0.75	1,367.8	– 3.5	–29.0	–32.5
South Korea	1,291	1,137	1,877	4.38	537.8	– 0.7	+ 6.6	+ 4.4
Taiwan	34.5	32.3	50.2	2.90	3,903.5	– 2.1	–17.7	–21.1
Thailand	44.7	43.8	65.0	2.94	275.1	– 3.2	+ 2.2	– 0.8
Argentina	1.00	1.00	1.45	38.70**	224.8	– 8.9	–46.1	–46.2
Brazil	2.69	1.91	3.91	19.05	11,364.7	– 0.9	–27.1	–47.1
Chile	710	570	1,033	3.78*	5,180.9	– 0.4	+ 6.4	–14.1
Colombia	2,308	2,137	3,357	11.46	814.1	+ 0.8	na	na
Mexico	9.25	9.58	13.5	7.40	5,537.0	– 3.0	– 2.0	+ 1.8
Peru	3.44	3.51	5.0	3.81	1,139.3	– 1.7	– 5.7	– 3.4
Venezuela	744	694	1,081	21.50	6,689.0	– 0.6	– 1.5	– 7.4
Egypt	4.26	3.76	6.20	8.60	5,577.5	– 4.0	–27.2	–33.6
Israel	4.28	4.13	6.22	4.47	368.4	– 2.9	–25.5	–29.6
South Africa	9.43	7.50	13.7	9.10	8,543.2	– 0.5	+ 2.6	–17.6
Turkey	1,593,500	679,660	2,317,108	57.00	9,848.8	+ 2.8	+ 4.4	–56.1
Czech Republic	37.3	40.6	54.3	5.20	375.3	+ 2.0	–21.6	–20.9
Hungary	283	307	412	10.70	6,773.1	+ 2.6	–13.7	–14.0
Poland	4.09	4.60	5.95	13.84	13,736.2	+ 2.8	–23.0	–22.3
Russia	29.7	27.9	43.2	25.00	204.0†	+ 2.8	+47.8	+42.4
EMF (MSCI)‡	1.00	1.00	1.45	na	266.9	– 1.3	na	–20.1
EMBI+§	1.00	1.00	1.45	na	200.9	– 2.4	na	– 0.5

*Inflation adjusted. †In $ terms. ‡Emerging Markets Free. §J.P. Morgan Chase's Emerging Markets Bond Index Plus. **New series.

Sources: National statistics offices, central banks and stock exchanges; Thomson Financial Datastream; Economist Intelligence Unit; Reuters; Warburg Dillon Read; J.P Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Garanti Bank; Deutsche Bank; *Russian Economic Trends*.

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